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REAUTHORIZATION OF THE LRSA

HEARING

BEFORE THE

SUBCOMMITTEE ON SURFACE TRANSPORTATION

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

SECOND SESSION

ON

REAUTHORIZATION OF THE LOCAL RAIL SERVICE ASSISTANCE PROGRAM

MAY 25, 1988

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REAUTHORIZATION OF THE LOCAL RAIL SERVICE ASSISTANCE PROGRAM

WEDNESDAY, MAY 25, 1988

U.S. SENATE,
SUBCOMMITTEE ON SURFACE TRANSPORTATION,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The subcommittee met at 2:05 p.m. in room SR-253, Russell Senate Office Building, Hon. J. James Exon (chairman of the subcommittee) presiding.

Staff members assigned to this hearing: Sheryl Weber Washington, professional staff member; Robert Holleyman, staff counsel; and Gerri Hall, minority professional staff member.

Senator EXON. The subcommittee will please come to order.

In the interest of moving ahead in an expeditious fashion, contrary to what the U.S. Senate is doing—we are moving ahead with such speed and dispatch on the INF treaty that we are in recess, which must be a good sign from everything that I can understand, but I cannot explain why it is.

But since Senator Rockefeller is cramped for time, I would like to recognize him first at this time for any opening statement or comments that he has.

OPENING STATEMENT BY SENATOR ROCKEFELLER

Senator ROCKEFELLER. Thank you, Mr. Chairman, very much.

I, as you know, am a passionate believer in LRSA, and in that I am not going to be able to stay as long as I should and as duty requires that I stay, I wanted to at least be able to say what I think about it.

I am an original cosponsor of the legislation to reauthorize LRSA, the Local Rail Service Assistance Program. And I am glad that we are having the hearing on it. The local rail service assistance program is important to my state of West Virginia, tremendously important to it, and I think it is very important to the Nation.

It is an example of how we can work in partnership, business, government, local, State, Federal levels. And I also think that LRSA also shows how, during a time of extreme budget austerity, that things can be done with limited but carefully targeted funds.

In West Virginia, as elsewhere, the merits of LRSA are not at all theoretical. LRSA has saved jobs in West Virginia. It has preserved businesses. It has stimulated the economy.

LRSA funds were critical to the rehabilitation of the South Branch Valley Railroad, a 52-mile former B&O branch, abandoned by the Chessie in 1978. I was Governor at that time, Governor Exon, and you were, too. And I bought a railroad.

People thought I was crazy, but not in those three counties where that poultry industry is. I did not buy it personally, I might point out to you. State money.

Senator EXON. I was about to ask about that. I would simply say that I could not have afforded to buy a railroad.

Senator ROCKEFELLER. I understand.

But the point is that in those three counties, with the LRSA help, over 1,200 jobs were saved because of the rehabilitation of the line. The line itself could not have done it. The rehabilitation of the line was the key, and it is the centerpiece of three of our counties in the eastern part of our State.

There is a 3-mile line serving the largest manufacturing employer in the city of Wheeling in our northern panhandle, not that far from Pittsburgh. That was abandoned by Conrail in 1984.

LRSA funds again coming to the rescue, being used to rehabilitate a badly deteriorated tunnel that is a critical structure on that line. In that industry there, 410 jobs are directly tied to the availability of rail service thanks to LRSA. We are going to have it.

I want to emphasize that in both these cases Federal funds were matched by state and local government and business contributions. The Federal LRSA funds, however, provided the critical spark that ensured the success of these projects.

The record of the LRSA Program teaches a very important lesson, at least insofar as this Senator is concerned. The need for LRSA funds has always exceeded the amount available.

As we comb through the budget searching for ways to reduce the deficit, we must distinguish between wasteful expenditures and those, like LRSA, which are investments that provide us with a return far exceeding their costs.

Some of those who helped create our deficits would now compound the error by cutting the meat instead of the fat. I am not even so sure how much fat there is, but the meat we have got to keep.

The administration's proposal to abolish LRSA is a mistake and would inflict economic harm on West Virginia, and we have had all we can take. We are still at double digit inflation. We still lead the Nation in unemployment. And the jokes about the State are not welcome. We need help, and LRSA gives us help.

Finally, I want to point out that LRSA is a necessary counterpart to the railroad deregulation policy that we have been following at least since 1980. An important feature of the deregulation has been liberalized rules for branch line abandonments.

The largest rail carrier in West Virginia contemplates selling or abandoning thousands of miles of the system by 1990. As with other aspects of railroad deregulation, corrective measures must be taken, in this case to prevent damage from the liberalized abandonment rules.

It is only fair for the Federal Government to help mitigate the burden on the States created by the new Federal policy.

For all these reasons, Mr. Chairman, I look forward to working with the members of this committee to reauthorize LRSA, which I consider one of the real jewels in our Federal budget.

And I thank the chairman for his indulgence.

Senator EXON. Senator Rockefeller, thank you very much. I was particularly interested in your statement because you and I worked together on transportation matters many years ago when we both had the great honor of serving our States as governor.

And we have worked shoulder to shoulder on these railroad and transportation issues in general since we have both been members of the Commerce Committee and the Surface Transportation Subcommittee thereof.

And I think it is particularly important to note the presence of those in this room who are basically from the have-not transportation States, where transportation is even more key and under more stress than it is in many of the more populated States today.

Thank you for your input. Thank you for your help, and we are going to listen to your advice on this very closely.

I will withhold my opening statement now so I can recognize my friend and colleague from South Dakota, who is from another State that has been hit particularly hard with the lack of rail service that they once enjoyed. And we would very much appreciate your opening statement at this time, Senator Pressler.

OPENING STATEMENT BY SENATOR PRESSLER

Senator PRESSLER. Well, thank you, Mr. Chairman, and I shall summarize.

Let me thank the chairman, Senator Exon, who has been such a leader in this field of railroads and transportation. I also want to compliment Senator Rockefeller, with whom I feel a common league in preserving railroads and transportation, because I think our States are similar.

Let me also say I note the presence of Senator Harkin and Senator Burdick, both of whom have bills. I am a cosponsor presently of Senator Harkin's, but I see no inconsistency to also be a cosponsor of Senator Burdick's, and I may become a cosponsor of both and we will blend the two of them together. I think they both represent good thinking.

Let me summarize my remarks because I know time is of the essence and I have to be at another meeting at 2:30 and hope to come back.

I want to say first of all, I am very proud to welcome Chris Randall, the Director of the South Dakota Division of Railroads, who will testify this afternoon. His work has been outstanding and I am looking forward to Chris' insight into the LRSA Program and thank him for testifying today.

South Dakota and other States, as Chris will tell us, have enjoyed considerable success from the LRSA program. The program has been effective since its beginning in 1973 and continues to be a valuable resource, though some may call for the phaseout of the LRSA program, as they have for years.

Mr. Chairman, I would like to paraphrase an old proverb by saying one good example is worth a thousand words. And I point to

a South Dakota-based regional railroad, the Dakota, Minnesota & Eastern, as a shining demonstration of what the LRSA program can mean to a struggling rail line.

The DM&E runs over 965 miles between Rapid City, SD, and Winona, MN. Last year, the first full year of operation for the railroad, DM&E handled over 43,000 carloads. DM&E expects a five percent increase this year. If it were not for this program, that would not happen.

The DM&E had its beginning when the Chicago Northwestern was seriously attempting to abandon many portions of the current DM&E main line. The line could not support a class one railroad. The DM&E was able to purchase the track for $26 million, yet had to plan on spending a considerable amount for line rehabilitation expenses to overcome years of deferred maintenance.

The LRSA Program was specifically beneficial to the DM&E as they sought to repair a 29-mile branch line. The railroad worked with South Dakota's Department of Transportation and Chris Randall, who is here today, to secure $600,000. The improvements made to that line allowed for better service to shippers and an additional source of traffic and revenue for the Dakota, Minnesota & Eastern.

Mr. Chairman, at my request this railroad has prepared comments on today's hearings. With your consent, I would like that testimony printed in the hearing record.

Senator EXON. Without objection, so ordered.

Senator PRESSLER. Mr. Chairman, when Chris Randall comes to the podium I hope he will amplify on the issues of the LRSA program's impact on the agricultural community, considering the distances between South Dakota and its terminal markets and ports, making our state a marginal competitor. If he could elaborate on what the LRSA means to our State's farm economy, it would be very useful.

And let me again say, Mr. Chairman, that I look forward to working closely with you on this. I disagree with the Reagan administration's efforts to eliminate this program because I think it is one of the most essential domestic programs to our State and to our Nation.

OPENING STATEMENT BY SENATOR EXON

Senator EXON. Senator Pressler, thank you very much. And I also want to extend my thanks to you for the great assistance you have been to all of us who represent rural states, and we look forward to not only your help, but your influence in moving this bill forward.

Senator Harkin has now joined us, as has Senator Burdick. Would you please be seated next to your colleague from North Dakota here, Senator Harkin.

And after the chairman gives a short opening statement—and I assure you that for a chairman it is a very short opening statement; I think that puts it in the right perspective as far as you other chairmen are concerned—then we will be glad to recognize the two of you for your testimony today that we are very glad you have come over to give.

This afternoon the Surface Transportation Subcommittee is holding a hearing on the reauthorization of the Local Rail Service Assistance Program. We will be taking the opportunity to consider testimony concerning the effectiveness of the Federal program and the need for its continuation, as well as the status of local rail service in this country.

Let me add here what I said earlier: Rural America is in a great deal of financial stress and strain today. Not the least of the many reasons that caused this, of course, is the fact that we have difficulty with our overall transportation.

I support the Local Rail Services Program and its reauthorization, and I will support it in the future. I simply say that this is essentially not unlike the essential air service program that was put into place basically for the same reasons, that the airlines and the service suffered in rural communities when we went to deregulation.

And so therefore, the Local Rail Service Assistance Program is essentially the same thing for essential air service as the Local Rail Service Assistance Program is for rail transportation.

While the Local Rail Service Assistance Program has been in existence for some time, dating back to the time when the Northeastern railway bankruptcies resulted in the creation of Conrail back in 1976, most of the circumstances which initially indicated the need for the program still persist.

In fact, since enactment of the Staggers Rail Act of 1980 there has been a very significant growth in the number of short lines and smaller regional railroads. And I would predict that we are going to see more and more of that in the future, which makes this particular program that we are considering today for reauthorization even more important.

For many years, the railroads have been abandoning marginal light density rail lines, some of which have survived as short lines. In recent years, however, the railroads, in addition to abandoning those low density branch lines, have been spinning off lines which as a part of a larger system are marginal, but have a potential for profit as smaller, more local railroads.

These marginally profitable lines are being sold to entrepreneurs, who are forming short line railroads or regional railroads of more significant size. These smaller railroads can often provide service more tailored to the local shipper, while serving as feeders to the entire rail system.

Over 3,000 miles of lines were sold to regional railroads in 1986 alone. What these facts tell us is that the structure of the rail system in this country is still as much in transition now as it was 12 years ago when Congress acted to initiate this program.

Meanwhile, without congressional action the program will expire at the end of this fiscal year, and the administration has recommended an end to the Federal involvement here. We will have the advantage today of being able to examine the program in light of its lengthy track record. This will allow us to try to solve the two essential questions before the subcommittee: First, does this program work? And secondly, is the Federal role appropriate?

We will hear today from Susan Coughlin, the Deputy Administrator of the Federal Railroad Administration. The FRA administers the program on a national level.

We will also hear from two panels, the first representing the State and local shippers and the second representing regional and short line railroads and rail labor. I am especially pleased to have with us Mr. Joe Stecher of Hooper, NE, Secretary of the Fremont, West Point & Pacific Railroad of Nebraska.

To start out with, I will be very honored to call our first panel, and that first panel includes two distinguished colleagues and friends from neighboring States, North Dakota and Iowa. And in order of seniority, I am first pleased to recognize a very influential member of the U.S. Senate who has helped out rural America for as long as anyone can remember.

And with that, I very much appreciate your comments and statements that you might have. I recognize the Senator from North Dakota.

STATEMENT OF HON. QUENTIN N. BURDICK, U.S. SENATOR FROM NORTH DAKOTA

Senator BURDICK. Thank you, Mr. Chairman. I would like to thank the chairman and the members of the committee for calling this hearing on what I believe is a very vital program.

I am sure that the witnesses here today will provide proof in numbers about why local rail service assistance contributes to the future of our national rail network. I can tell you that the program works for North Dakota, and I am pleased that Bob Evans, State Rail Planner, is here to tell you how successful it has been.

My colleague Senator Harkin and I have introduced slightly different reauthorization bills. We both represent agricultural States which are very dependent on rail service.

In Iowa and North Dakota, as well as in other rural States, loss of rail service to a single business or a grain facility can close that facility down and deal an economic blow to the entire county. Right now, many rail-dependent States fear the loss of rail service.

The possibility of large-scale abandonments and the formation of short line railroads are affecting service on low density branch lines.

Local rail service assistance allows States to tailor solutions to the problem of preserving service on local lines. My State has been fortunate in the experience with regional railroads.

The Red River Valley & Western Railroad operates on 650 miles of line in southeast North Dakota. So far the results have been good. Service has been improved for hundreds of shippers.

But a short line railroad is subject to the risks of any new business. There is no magic formula to ensure its success. States must be given the opportunity to preserve service in the event that a short line should fail.

In North Dakota, local rail service assistance funding was used to rehabilitate rail lines near the town of Cheyenne. A sand and gravel business in this community had been shipping its products exclusively by truck. With the availability of improved rail service,

Cheyenne Sand and Gravel is now negotiating for new business and expects to begin shipping by rail soon.

In this situation, the state spurred economic growth by improving service on the branch line.

I believe that the real gem of the local rail service assistance program is the State rail planning process. By considering each rail line as part of a nationwide network, we can see that successful State rail plans are the blueprints for a strong overall system.

The reauthorization of local rail service assistance will be a statement of support from Congress for the future strength of our transportation system.

I appreciate the support of this committee for my bill to reauthorize this important program. I would like to include with my statement letters from the North Dakota Grain Dealers Association and the North Dakota State Intermodal Transportation Team.

I ask that the letters be made a part of the record, Mr. Chairman.

Senator EXON. Without objection, so ordered.

I just wanted to thank the Senator from North Dakota, who will play a key role after—as I am sure that we will—reauthorize continuation of this program in the Commerce Committee.

The key role that the Senator from North Dakota will play is as a member of the Appropriations Committee in getting the funding necessary for this.

And I just want to publicly thank you once again, Senator Burdick, for the key role that you have played for rural America in general, North Dakota, and all the other States associated therewith in the rural area, and thank you on behalf of the people in Nebraska for the understanding and appreciation that you have given us over the years in your important committee assignments. And we are honored to have you here today, and we will take into consideration the excellent statement that you made.

Now, please recognize the Senator from Iowa, who likewise is locked in with us in the rural States in the continued need for improved transportation facilities. Both of these men are particularly close friends of mine, and I enjoy working with them very much.

Sometimes during the football season I enjoy working more with the Senator from Iowa than I do the Senator from North Dakota, who was a football star for the University of Minnesota, and sometimes he is more difficult to get along with than is the Senator from Iowa during the football season.

Senator BURDICK. Will the chairman yield?

Senator EXON. I would be happy to yield.

Senator BURDICK. Do you want to know about that unpleasant subject?

Senator EXON. There is a story that I will declare out of order if you try to tell it, which you tell from time to time, when your father played for University of Minnesota, as you did, and they defeated Nebraska one year some time around the turn of the century.

We do agree that they did defeat us at that one particular game, and that is the only time since. So in modern times we still prevail. So I will not allow you to tell that story now.

Senator BURDICK. I will continue to be magnanimous.

Senator EXON. Thank you.
Senator Harkin.

STATEMENT OF HON. TOM HARKIN, U.S. SENATOR FROM IOWA

Senator HARKIN. That is because you win once in a while. If Iowa could ever win over Nebraska, boy, would we be magnanimous, too. But I think sometimes—I appreciate what the chairman has said.

Sometimes we in Iowa during football season when we go up against Nebraska, we feel like Charlie Brown, you know, when Lucy is always holding the ball and every year she tricks him. He always thinks he is going to kick it. One of these years, one of these years we actually will get a touchdown against Nebraska, one of those years.

Senator EXON. Strike that from the record.

Senator HARKIN. Mr. Chairman and Senator Pressler: I appreciate this opportunity to be here. I want to join you, Mr. Chairman, in paying accolades to the distinguished Senator from North Dakota, with whom I have a very close working relationship.

The bills that we have introduced basically are the same. There is just not a heck of a lot of difference. I could be a supporter of his bill just as easy as I am of mine.

There is just not very much difference at all. They both go down the same track, no pun intended, of seeking to expand this program, to continue on the local rail service assistance program, and to provide for more assistance to our local branch lines.

I just want to say that Senator Burdick has just been great to work with on this issue, and I too look for his leadership in this area as well as yours, Mr. Chairman. And all of us, Senator Pressler, from rural areas, we all have a great stake in this.

So I appreciate your taking the time, Mr. Chairman, to have this hearing.

Paul Eckhoff, who is right down here in the front row, who is the head of the Iowa Rail Users Association, will be testifying a little bit later. I just want to tell you, Mr. Chairman, he is one of the most respected shippers in the State of Iowa, and I think he will bring some very interesting testimony to light in terms of how we have used this program and what the shippers need in the State of Iowa.

You ask about successes. There is a book that was put out, Mr. Chairman—I am sure you are familiar with it—of the successes under this program since it first came into being in 1973. And I tell you, they are just legion. Conversions of abandoned branch lines, transportation systems, intermodal systems, intermedial systems, everything.

Mr. Chairman, more to the point I think is that without railroad branch lines, the farmers would have to move their grain by truck, which is much more costly. Small coal companies, many manufacturers, have to do the same thing.

But in addition to the higher cost of business, government also pays a higher cost due to the greater truck use of the highway system. For every 100 railroad cars that are filled with corn that we take out of commission, our roads will have to endure 367 more trucks.

And I can tell you, you know what our tax system burden is like out in the Midwest now trying to keep up those roads. And so here we have a system that is basically in place.

But some people say that, well, this is not a Federal responsibility, and they say that if a rail line is not profitable it will be abandoned, and if it is profitable it will be maintained.

Well, that is not true. A railroad may make money on a line, but it might make more money someplace else. That is just it. And a lot of these lines, they say they are not profitable; they are profitable, but they can make a little bit more money if they abandon it, salvage it, take the money, and put it someplace else.

But the value of a line to a grain elevator, to a farmer, may be a heck of a lot more than the salvage value of the track and the land.

But you know, Mr. Chairman, the more it costs industry to move goods the less competitive we are as a Nation. Well, the same is true of States. The Iowa Grain and Feed Association figures that the farmers can increase their profit margin three to 12 cents a bushel if they ship by rail instead of by truck.

But handling these high-volume agricultural products on branch lines is not easy. When the jumbo 100-ton hoppers were introduced, most of these light-duty branch lines were inadequate to handle the loads.

To compound the problem, unit train shipments of 25 to 50 cars have become popular, and these heavy train loads place much greater stress on the tracks than general train operations.

Mr. Chairman, the bill that I introduced provides a modest $35 million a year for the Local Rail Assistance Program for 3 years. I am told that the American Association of State Highway and Transportation Officials have identified a need for $1.3 billion for this program in 47 States. They have identified the need for this. So this is a very modest amount of money. I wish it could be more.

In my home State of Iowa, our State rail division has developed a program which provides for a considerable leveraging of the Federal funds, with the State matching the Federal contribution and often acquiring a 60-percent match of the Government funds from the railroad on the shippers.

Mr. Chairman, in Iowa, over 14 years, $25 million in Federal funds has been matched with $22 million in State funds, $33 million in shipper's funds, and $41 million in railroad funds, for a total of $121 million in rehabilitation. That is a 4-to-1 match.

And I challenge any other Federal program where we are putting money out that can find that kind of a match, four to one. For every dollar we put out, we can match it up to four to one.

So, as you know, Mr. Chairman, it is a program that really works. Lines are saved, our entire economy benefits. Over 1,200 miles of track in Iowa is in use today that was rehabilitated under this program, and a large part of that track would be abandoned without it. And so it really does deserve to be continued.

And again, Mr. Chairman, I appreciate your having this hearing. It is vital to us in the Midwest and in rural areas. I just cannot emphasize enough that every time I hear this old story that, well, they are just not profitable. We have got to abandon them.

Well, that is just not so. With a little bit of money, upgrade them a little bit, with the matching money that comes in, our farmers make more money, the shippers make more money, our taxpayers actually save money because we do not have to go out and rebuild those highways and those bridges that those trucks are pounding to death every day out there.

So for any way you look at it, it just makes good common economic sense to keep this program going. Mr. Chairman, thank you very much.

[The statement follows:]

STATEMENT OF HON. TOM HARKIN, U.S. SENATOR FROM IOWA

Mr. Chairman, I appreciate this opportunity to testify concerning the need to reauthorize the Local Rail Service Assistance Program which expires on September 30.

I introduced S. 2195 with Senators Rockefeller and Pressler. The bill provides for a reauthorization of this program for a 3-year period at a level of $35 million per year. This legislation has bipartisan support and has been cosponsored by eleven senators.

As you know, the Local Rail Services Assistance Program provides modest financial assistance to all States for use in manners they consider appropriate for rail freight support.

Some of the most visible accomplishments of the LRSA program since its establishment in 1973 can be classified as: rehabilitation projects, conversions of abandoned branchlines into productive shortline railroads, and transportation systems aids such as intermodal terminals, that have improved the competitive posture of the nation.

For example, LRSA has rehabilitated thousands of miles of freight track to handle larger cars at higher speeds; reopened scores of critical branchlines as newly created shortline companies; and provided for the movement of many thousands of carloads of freight that would have otherwise been carried in smaller, less efficient, and more costly truck loads.

Without railroad branchlines, farmers would have to move their grain by truck which is more costly.

Small coal companies and many small manufacturers would have to do the same. For many of them, the loss of rail service can mean the loss of their ability to operate economically.

In addition to the higher costs to business, government also pays higher costs due to greater truck use of the highway system. For every 100 railroad cars of filled with corn that we take out of commission, our deteriorating roads will have to endure 387 more trucks.

Some way that railroads are not a federal responsibility. They say that if a rail line is not profitable, it will be abandoned and if it is profitable, it will be maintained. That simply is not true. A railroad may make money on a line. But, it may not be making as much of a profit as it could make elsewhere. Or, a railroad may be in such poor financial shape that it cannot maintain its lines, thus allowing them to fall into disrepair and become more costly to use. Or, poor railroad management can leave shippers without cars, forcing them to use trucks which means there is less revenue earned on the branchline.

Economic systems are not perfect. The value of a branchline to local shippers may be so great that the shippers themselves may want to purchase the line if a railroad chooses to abandon it. But the shippers may not have the resources to put the deal together. The value of a line to grain elevators and farmers may be far more than the salvage value of the track and the land.

I would like to call to the Committee's attention a report issued last year by the National Conference of State Railway Officials Task Force of the American Association of State Highway and Transportation Officials. The report documents classic LRSA cases where light density rail branchlines, abandoned by major railroad companies, have been reorganized as short lines. These shortlines, equipped with new rolling stock and their tracks rehabiliated, successfully maintained the economic viability of major regions of their respective states.

And one of important result was the saving of many jobs. Because we know saving jobs is often a more efficent means of preventing unemployment than creating new jobs, I would like to mention a few example where LRSA saved jobs.

In Washington State $3.7 million in federal funds were combined with State and private funds to save over 500 direct jobs. Oregon saved 1600 direct and 3700 indirect jobs—together an estimated payroll of $86 million dollars.

In Mississippi, the Itawamba County Development Council now operates a 25 mile shortline to the city of Fulton on the Tennessee-Tombigee waterway—had this branchline been abandoned 879 persons would have lost jobs.

In West Virginia, 1200 jobs were saved in the South Branch Valley, West Virginia's largest poultry and feed grain region, when the state transportation department took over operations of a branchline.

Mr. Chairman, in addition to saving jobs, improved national competitiveness has been another by-product of the LRSA program. One of the measures of the Nation's increased competitiveness is a count of carloads moved by branchlines.

In New Jersey, a branchline purchased, rehabiliated, and now operated as a shorline by a major shipper on the line, is projecting 10,000 carloads annually, nearly double earlier estimates.

In Pennsylvania, Hammermill Paper, one of three major employers and shippers on a branchline, formed the Allegheny Railroad to rehabilitate and operate the line after its abandonment by Conrail. With 21 employees, Allegheny hauled 15,000 extraordinary heavy carloads of logs, crushed stone, and asphalt in 1986, its first year of operation—and provided large indirect savings on state highway maintenance costs.

As you know Mr. Chairman, the more it costs industry to move goods, the less competitive we are as a Nation. In my own state of Iowa, the Grain and Feed Association figures that farmers can increase their profit margin 3 to 12 cents per bushel when they ship by rail instead of truck. Now, handling high volume bulk agricultural products on branchlines is not easy. When the jumbo 100 ton hoppers were introduced, most light duty branchlines were inadequate to handle the loads. To compound the problem, unit train shipments of 25 to 50 cars have become popular and these heavy trainloads place much greater stress on tracks than general train operations.

But, Mr. Chairman, lower product cost and greater competitiveness of rail shippers are directly related to the condition of track maintenance. LRSA rail maintenance has allowed increased operating speeds, reduced derailments, and permitted heavier carloads. These are attributes that shippers can directly translate into fewer cars, shipments that arrive more quickly, and of course, lower costs.

In the Washington State LRSA example previously cited, the Department of Transportation leveraged the $3.7 million in federal funds into a program with documented dollar savings of $45 million in operating expenses, $2.3 million in transportation costs, and additional gains of $4.5 million in increased business sales. But Mr. Chairman, dollar and cent savings on rail shipment are only the most visible saving contributing to increased competitiveness.

I believe that one of the most important steps our nation has taken to stimulate the economy has been the establishment of first class transportation systems. The federal government provided the incentives, mainly through grants of land, for the building of our major railroads in the last century. In this century, we invested in the Interstate Highway System. Both investments have had a tremendous positive impact on our nation's productivity.

But, in recent decades, our railroads have been deteriorating. We have born this cost as a nation. We can talk about who is at fault for this development. But that will not be productive. The fact is, we do not have the federal resources to create a massive program to restore all of the lines that should be saved. But, I do believe that we can provide for a modest sum to be used to help preserve useful branchlines with significant traffic loads that would not remain viable without assistance. We can provide enough funds to help avoid the worst tragedies in this area.

The bill which we are introducing provides a modest $35 million per year for the Local Rail Assistance Program over each of the coming three years. I am told that the American Association of State Highway and Transportation Officials have identified a need for $1.3 billion in 47 states. And recent events in the rail industry are likely to considerably increase that need. The funds being authorized by this legislation will find many worthy projects. With proper administration, these funds can be used to make the difference on a number of very significant lines where the loss of service would be most damaging.

This program is designed to give maximum flexibility to the states in the selection of the lines to be benefited and the structure of the assistance to be provided. Normally, the state applies to the Federal Railroad Administration with its most viable proposals and the FRA allocates the available funds to be administered by the

state authorities. However, in some cases, grants are provided. In others, low interest loans are used.

In my home state of Iowa, our state rail division has developed a program which provides for a considerable leveraging of the federal funds with the state matching the federal LRSA contribution and often acquiring a 60 percent match of the government funds from the railroad or the shippers. In some cases, that is not feasible. When loans are issued, the repaid funds go back to the states to be used for new railroad assistance. In Iowa, over fourteen years, $25 million in federal funds has been matched with $22 million in state funds, $33 million in shipper funds and $41 million in railroad funds for a total of $121 million in rehabilitation. That is almost a four to one match.

This is a program that really works. Lines are saved and our entire economy benefits. Over 1200 miles of track in Iowa is in use today that was rehabilitated under this program and a large part of that track would be abandoned without it. It deserves to be continued.

S. 2195 maintains that presently allowed seventy percent federal funding level where a purchase of track is proposed. In many of these cases, with shippers often in poor financial condition purchase a line, a high level of federal funding is justified. For other uses, such as rehabilitation of track, 2. 2195 requires at least a 40 percent local match rather than the present 30 percent local match requirement. This will increase the effectiveness of federal funds. Without the purchase costs, where rehabilitation is proposed by the existing owner, I believe that 40 percent non-federal funding is a reasonable floor considering our limited resources.

I urge that the Local Rail service Assistance Program be reauthorized. Thank you.

Senator EXON. Senator Harkin, thank you very much. I also want to point out that you are a key Member of the Appropriations Committee, and I think Senator Pressler and I recognize how important it is that we have such strong supporters of rural America as you and Senator Burdick serving on that very important committee.

We appreciate very much your stalwart support for everything that is of benefit to rural America, and particularly your excellent testimony on this subject today. Thank you both for coming.

Senator HARKIN. Mr. Chairman, thank you. I would like to stay. I have to chair a subcommittee at 3 o'clock.

Senator EXON. We understand how overlapping these schedules are. Thank you for taking time to come over here and testify on this important measure.

The first panel today is Ms. Susan Coughlin, the Deputy Administrator of the Federal Railroad Administration. Ms. Coughlin, would you come forward at this time please?

We appreciate very much your responding to our request that you come over and testify today. And I would ask at this time that you proceed with your testimony. I believe you do have a written statement. We will accept that without objection for the record. And we would appreciate your summarizing at this time.

STATEMENT OF SUSAN COUGHLIN, DEPUTY ADMINISTRATOR, FEDERAL RAILROAD ADMINISTRATION; ACCOMPANIED BY JIM McQUEEN, ASSOCIATE ADMINISTRATOR FOR PASSENGER AND FREIGHT SERVICES; AND BILL LOFTUS, EXECUTIVE DIRECTOR

Ms. COUGHLIN. Absolutely, Senator. We do appreciate being here today. FRA is always glad to appear before this subcommittee, and we know that the working relationship that we have with the subcommittee is one that we both treasure and look forward to.

I would like to read my testimony for the record, and I would like to introduce the people that are with me here today. I am sure

they are not strangers to this subcommittee. The Associate Administrator for Passenger and Freight Services, Mr. Jim McQueen, is on my right, and Mr. Bill Loftus, the Executive Director of FRA, on my left.

Senator EXON. Welcome.

Ms. COUGHLIN. Mr. Chairman, we hate to be the spoilers at the party. But as you know, the administration opposes the reauthorization of the Local Rail Service Assistance Program, [LRSA], for the same policy reasons that funding has not been requested since fiscal year 1983.

The LRSA program, as you know, is a byproduct of the financial crisis that afflicted American railroads in the 1970s. It was established by the Regional Rail Reauthorization Act of 1973 as a regional 2-year program of financial assistance to provide local communities sufficient time to adjust to the loss of rail service, due to the bankruptcy of the Penn Central and several smaller regional carriers.

Only 18 States in the Northeast and Midwest were originally eligible for assistance. As the railroad financial crisis peaked with the bankruptcy of the Milwaukee and Rock Island railroads, the program was expanded nationally, making every State except Hawaii eligible for assistance.

Mr. Chairman, FRA is extremely proud of the States—accomplishments under LRSA. Since 1976, the program has provided planning assistance to 49 States, as well as the District of Columbia, and project funding for 47 States.

Over $490 million has been granted to date, and States have used their LRSA funding very effectively to preserve essential rail service to many communities by rehabilitating, as other witnesses have said before, literally thousands of miles of track.

In some cases, the States have even purchased these lines. Many States have taken advantage of the program's flexibility by pursuing low-cost options such as rail connections in lieu of major rehabilitation projects.

A few States have even selected non-rail alternatives, which are less expensive than continuing rail service, such as relocating a single shipper or increasing the capacity of local roads.

But Mr. Chairman, one of the major successes of the LRSA program is that the concerns which led to its creation are now being addressed outside of LRSA and the Federal Government. States are creating their own programs to deal with the preservation of essential freight services.

Perhaps even more important have been the changes in the railroad industry brought about by regulatory reform under the Staggers Act of 1980. Since then, many states have established their own independently funded rail freight assistance programs with 23 States today having active programs in place.

Approximately $185 million is available under these programs through 1989. The remaining states provide technical assistance to shippers and local communities. And there have been some creative efforts as well. Nine States have used their LRSA funding as a base for financing future projects by loaning those funds to railroads instead of granting them.

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Since the early 1970's, when the LRSA Program was established, the Staggers Act and other regulatory reforms have greatly improved the financial condition of our Nation's railroads.

Major carriers are continuing to restructure and streamline their systems, but they no longer rely exclusively on the abandonment process. They are actively working to preserve rail service on light density lines through sales to short line and regional railroads, which can operate more efficiently and profitably.

Some of the selling railroads, such as Norfolk Southern, have introduced low-cost lease/purchase plans, and have assisted new short lines with rehabilitation work and favorable division of revenues.

Since the passage of the Staggers Act in 1980, as this Committee knows 157 short line and regional railroads have been created. Mr. Chairman, private sector financing was available for the purchase of virtually all of these lines, and much of the rehabilitation funding came from state programs or private sources, as well as LRSA.

The explosion in the number of these smaller railroads, particularly when LRSA funding has been at its lowest level, demonstrates the move away from line abandonments and job loss to continued service and job preservation.

It also demonstrates the viability of private sector financing for acquisition, and rehabilitation of light density lines. The LRSA Program provided the transitional assistance for which it was established.

It demonstrated that the feeder line concept was economic, and that regional and short line railroads could succeed as feeders to the trunk line rail system. Now, States, selling railroads, and private sector financiers have stepped forward to continue that process.

In light of this success, and coupled with the need to reduce Federal spending, we believe that there is no compelling need to continue the LRSA Program.

Mr. Chairman, that completes my prepared statement; we would certainly be glad to answer any questions that the Committee might have.

Senator EXON. Ms. Coughlin, thank you very much. I appreciate your statement, and we also recognize the good working relationship that we have had with your department and this subcommittee.

The difference, in our opinion, right now is that we would like to continue that working relationship.

Ms. COUGHLIN. I get your message.

Senator EXON. And you wish to end it. You have stated that the LRSA Program has provided the transition assistance for which it was established.

Does this reflect an opinion that the FRA feels that the era of railroad reorganization is ending? Or that it was the intent of the program to transition the responsibility for local rail assistance to the states and get the Federal Government out of even a share of those costs?

Ms. COUGHLIN. Mr. Chairman, we do feel that the original intent of the LRSA Program provided a temporary bridge between the time when the Penn Central was providing service to local commu-

nities and when they experienced their financial difficulties. And it was, in fact, in the beginning, a 2-year program.

We believe that that program was very successful. We certainly do not believe that the era to Class I carriers rationalizing their systems has come to an end. But we believe that there are private sector financiers out there, there are State programs, as I have mentioned, there are 23 state programs in place, with, Mr. Chairman, close to 20 times the money that was in the LRSA program this year from the Federal Government.

We believe there are alternatives out there. We do not believe that at this point the Federal Government is, given the funding level, or should be, a major player in what are basically local issues.

These are local rail lines and in most cases are intrastate lines. The benefits that accrue are at the local level. And we believe that the bulk of the funding should be at the local level, and we believe that funding is there.

Senator EXON. Well, since we are on a 70–30 program, with the non-Federal share in many States approaching 50–50, you know, when you are talking about half and half, each side is contributing, but both of the contributions are extremely important.

While it may be true that there are certain areas of the United States that are in the position to carry on 100 percent of that local funding, I want to assure you that there are certain areas of the United States that, in the view of this Senator, are not in a position to carry on, as you have recommended. And that is one of the reasons that we do not agree with the administration's position of zeroing this out.

Some of the same arguments that you just made, while they are good ones, do not ring true in certain areas. We heard some of the same arguments against the essential air service program, which neither this committee or the Congress of the United States bought, notwithstanding the administration's recommendation.

It is said that actions of the Federal level, including the streamlining of abandonment process, the approval of large railroad mergers, and continuing investment in highways, have contributed, at least in part, to the climate now resulting in continued railroad reorganization.

And I think no one can argue but what that is just going on, certainly by the recent acquisition of the Union Pacific by another very important railroad. And the proposals for branch lines that are accelerating, I think, at this time rather than declining.

Now, if this is the case, which I think it is, is it not appropriate that the Federal Government participate in this measure, such as the LRSA Program, that seeks to mitigate the impacts of reorganizations?

I mean, I do not think the problems are over. And you could make an argument that maybe the original intent of the program has run out. I do not necessarily agree with that. But I guess you could make a case for that if you wanted to.

But does not that ignore what I think is to be more and more transfers to branch lines and short lines in the immediate future?

Ms. COUGHLIN. Well, Senator, I certainly understand your viewpoint, and yet one of the purposes of deregulation was to get the

Federal Government out of making private sector decisions, and the actions by the ICC that you mentioned are largely consistent with that purpose.

And I understand what you are saying, then does the Federal Government have some residual responsibility? I think not. Furthermore, we got down to where we were making decisions from a budgetary standpoint and that every dollar that we directed toward LRSA, particularly where there is private sector financing, and in some cases State funding, represented a direct tradeoff of resources we could direct to FRA's safety enforcement. Unfortunately we do not have programs at the State level, to take up that slack in safety enforcement that we have to take over for LRSA. And I have to say it boiled down to some very difficult decisions.

We have been proud of the LRSA Program, proud of how it has operated, and proud of the Federal contribution. But I would have to come back again to our major thesis that we have had to make some very tough budgetary decisions.

And though the Congress might not agree with them, it was not something we did lightly. We made some tough choices and made some tradeoffs.

Senator EXON. We know about tough choices.

Ms. COUGHLIN. I am sure you do.

Senator EXON. We are making them right across the board. We are making more over in the Armed Services Committee.

Ms. COUGHLIN. Yes, sir. I appreciate that.

Senator EXON. But over on Armed Services we do not zero out anything. We always find some way to continue a program. But not so with some of our very important social programs.

Ms. COUGHLIN. But there is no question that the funding for the LRSA Program has declined over the years, and part of that has to be a reflection that there have been alternative sources of funding, would be my only point.

Senator EXON. Thank you. I have another question or two, but I know that Senator Pressler has a previous commitment. I am pleased to yield to him at this time.

Senator PRESSLER. Well, thank you, Mr. Chairman. I thank the witness for the testimony.

And let me say that we do have a disagreement here, and I join in the remarks of Senator Exon in terms of—my State, at least, would be very hard-pressed to come up with additional funds.

But aside from that, I would like to get some statistics into the record. Maybe you know them. How many of the 157 short line and regional railroads created since 1980 have been financed solely by the private sector or State funds? How many used LRSA funds?

Ms. COUGHLIN. Senator, I do not have those numbers at my fingertips. But we will certainly get them for you and submit them for the record.

[The following information was subsequently received for the record:]

Of the 157 short line and regional railroads created since the passage of the Staggers Act in 1980, only 7 have purchased rail lines with LRSA funds. This is less than 5 percent of all the new short line and regional railroads. The balance were purchased with private sector financing or state or local funds. The LRSA Program has had a larger role in the area of track rehabilitation. A total of 76 of new short-

line and regional railroads have received track rehabilitation and rail facility construction assistance under the LRSA Program. Attached is a chart which reflects the amount of LRSA funding being provided to these new short line and regional railroads.

LOCAL RAIL SERVICE ASSISTANCE FOR LINES OPERATED BY SHORTLANE AND REGIONAL RAILROADS ESTABLISHED SINCE THE STAGGERS ACT OF 1980

State	Railroad	Purpose	Amount
Alabama	South Rail (Mid-South Rail)	Rehabilitation	$322,700
	Huntsville & Madison County Railroad Authority*	Rehabilitation	582,888
Arkansas	Little Rock & Western Railway	Rehabilitation	624,047
	Fordyce & Princeton Railroad	Rehabilitation	1,464,300
California	Eureka Southern Railroad	Rehabilitation	439,529
	San Diego & Imperial Valley Railroad*	Rail facility, construction	899,762
Colorado	Kyle Railroad*	Rehabilitation	462,266
Delaware	Wilmington & Western Railroad	Rehabilitation	125,000
	Delaware Coast Line Railroad*	Rehabilitation	140,124
Illinois	Cairo Terminal Railroad	Rehabilitation	379,261
	Iowa Interstate Railroad	Rehabilitation	1,197,804
	Chicago, Central & Pacific Railroad	Rehabilitation	156,009
	Vandalia Railroad Co	Rehabilitation	88,226
	Indiana Hi-Rail	Rehabilitation	350,000
Indiana	Indiana Hi-Rail	Rehabilitation	653,325
	Indiana Rail Road	Rehabilitation	327,038
	Central Indiana & Western Railroad	Rehabilitation	179,770
Iowa	Chicago, Central & Pacific Railroad	Rehabilitation	1,981,434
	Appanoose County Community Railroad*	Rehabilitation	300,000
	Iowa Interstate Railroad	Rehabilitation	280,108
Kansas	Dodge City, Ford & Bucklin County Railroad*	Rehabilitation	1,086,647
	Mid-States Port Authority/Kyle Railway*	Rehabilitation	1,555,892
Kentucky	Indiana Hi-Rail	Rehabilitation	190,692
	Tennken Railroad	Rehabilitation	242,305
	Paducah & Louisville Railway	Rehabilitation	548,664
Louisiana	Mid-Louisiana Rail Corp	Rehabilitation	1,039,089
	Louisiana & Delta Railroad	Rehabilitation	269,389
Maryland	Maryland Midland Railway*	Rehabilitation	98,000
Massachusetts	Bay Colony Railroad*	Rehabilitation	1,622,138
Minnesota	MNVA*	Rehabilitation	1,015,000
	Dakota Rail-Little Crow Division	Rehabilitation	874,627
	Dakota, Minnesota & Eastern Railroad	Rehabilitation	300,000
Mississippi	Rosedale-Bolivar County	Acquisition	340,000
	Port Commission/Great River Railroad*	Rehabilitation	688,127
	Columbia and Silver Creek Railroad*	Rehabilitation	422,682
	Mississippi Delta Railroad	Rehabilitation	403,970
	Mississippian Railroad	Rehabilitation	1,015,080
Missouri	Chillicothe-Brunswick Rail Maintenance Authority*	Acquisition	200,000
		Rehabilitation	324,970
	Jackson and Southern Railroad	Rehabilitation	100,393
	Columbia Terminal*	Rehabilitation	509,000
Montana	Central Montana Rail*	Rehabilitation	4,226,771
Nebraska	Sidney & Lowe Railroad	Rehabilitation	913,873
New Hampshire	New Hampshire Northcoast Corp	Rehabilitation	350,000
New Jersey	Railway Valley	Rehabilitation	527,033
	New York, Susquehanna & Western Railway	Rehabilitation	1,921,618
	Shore Fast Line	Rehabilitation	136,516
	Morristown & Erie Railroad*	Rehabilitation	370,718
	Winchester & Western Railroad	Rehabilitation	1,506,534
North Carolina	Aberdeen, Carolina & Western Railway	Rehabilitation	951,339
	Advancement Inc./Redsprings & Northern Railroad*	Acquisition	52,00
		Rehabilitation	422,852
	Fairmont Development Corporation/Fairmont Western Railroad*.	Acquisition	490,000
		Rehabilitation	119,685
North Dakota	Red River Valley & Western Railroad	Rehabilitation	800,000
Ohio	Ashtabula, Carson, Jefferson Railroad	Rehabilitation	76,945

LOCAL RAIL SERVICE ASSISTANCE FOR LINES OPERATED BY SHORTLANE AND REGIONAL RAILROADS ESTABLISHED SINCE THE STAGGERS ACT OF 1980—Continued

State	Railroad	Purpose	Amount
	Ashland Railway	Rehabilitation	354,729
	Newburgh & South Shore Railroad	Rehabilitation	244,753
	Ohi-Rail Corporation*	Acquisition	110,092
		Rehabilitation	1,371,223
	Ohio Southern Railroad*	Rehabilitation	1,398,132
	Indiana & Ohio Railroad*	Acquisition	353,177
		Rehabilitation	220,120
Oklahoma	Farmrail	Rehabilitation	1,275,466
Oregon	Nevada-California-Oregon Railroad	Rehabilitation	468,291
Pennsylvania	Pocono Northeast Railway	Rehabilitation	287,651
	Allegheny Railroad	Rehabilitation	428,459
	Lackawanna Valley Railroad*	Rehabilitation	288,600
South Carolina	Port Royal Railroad*	Rehabilitation	798,990
	Horry County Railway/Waccamaw Coast Line Railroad*	Rehabilitation	82,574
South Dakota	Sisseton Southern Railway	Rehabilitation	648,933
	D&I Railroad	Rehabilitation	492,265
	Dakota, Minnesota & Eastern Railroad	Rehabilitation	626,143
Tennessee	Caney Fork & Western Railroad*	Rehabilitation	792,500
	Nashville & Ashland City Railroad	Rehabilitation	569,332
	Nashville & Eastern Railroad*	Rehabilitation	747,850
Texas	Border Pacific Railroad	Rehabilitation	302,488
	Brownsville & Rio Grande International Railroad*	Rehabilitation	670,878
	Texas North Western Railway	Rehabilitation	1,557,717
	Austin & Northwestern Railroad*	Rehabilitation	552,391
Virginia	Eastern Shore Railroad*	Rehabilitation	1,248,410
Washington	Port of Royal Slope Railroad*	Acquisition	292,858
		Rehabilitation	554,962
	Washington Central Railroad	Rehabilitation	400,211
West Virginia	Wheeling Industrial Track*	Rehabilitation and tunnel repair.	979,650
Wisconsin	Nicolet Badger Northern Railroad*	Rail connection	200,000
	Wisconsin & Calumet Railroad	Rehabilitation	565,835
Total			55,550,820

*Publicly owned.

Senator PRESSLER. What would you guess is the answer?

Ms. COUGHLIN. Almost all of them, I am told, were purchased with at least some private sector funds.

Senator PRESSLER. How many used LRSA funds?

Ms. COUGHLIN. Senator, I do not have that number with me. I will submit it for the record.

Senator PRESSLER. Well, I think that they will illustrate that indeed, if these things could be financed solely by the private sector or State funds, that in more examples or instances they would have been.

And I think that what LRSA funding has done has been extremely significant, and I think that the record will show that this is a strong argument for their continuation. Thank you, Mr. Chairman.

Senator EXON. Thank you. I had just two other questions that I might ask you, Ms. Coughlin, and then if you wish to expand on any of your remarks, why we will be glad to take time to listen to that.

The end of the LRSA program will also spell the end of the uniform State rail planning as prescribed under the program. What do

you feel are the advantages of the existence of this uniform planning? And what will the impact be if it is terminated?

Ms. COUGHLIN. It certainly has been a valuable tool, from the perspective that it gave the Federal Government a good feel for what was going on out in the States. And it gave us, almost on a State by State basis, a view of what was happening in the States, and where their priorities were. And certainly, from the State level, I can appreciate that this money was very valuable to them in putting together their priorities.

But I would have to say that it is such an infinitesimally smaller amount than what you would be talking about from a project funding standpoint that, Senator, it is a little bit hard for us to imagine that if it was a priority in the State, that the State budget process could not come up with $48,000.

It is such a small amount of money. But you could turn that around and say the same thing to me.

Senator EXON. I was about to. Please do not scoop me on that.

Ms. COUGHLIN. But the fact of the matter is, we do not believe that there is any State out there that could not afford $48,000 to put together a rail plan.

Senator EXON. Well, I suspect, I would not necessarily disagree with you on that. The problem is that, if they do spend that $48,000 on something, something else is going to have to suffer. So you come down to setting a matter of priorities, which is what budgeting is really all about.

Ms. COUGHLIN. Absolutely.

Senator EXON. My last question has to do with minimum authorization levels.

Working under the assumption that I think is very likely to come true, that we will authorize continuation of this program here, and if we do we hope that we would have you and your other administrators who have been so helpful to us over the years on this would at least have some input as to how we proceed.

But given that assumption, what would you recommend, without putting you on the record as for it, as I understand you cannot be in that position. But just as a personal opinion, what would you think would be the minimum level of funding that would be needed to make the program effective as it has been in the past, if we do reauthorize?

And also, a followup to that, if we reauthorize, are there any changes that you would recommend in the structure of the program based on the experience that you have had with this in the past?

Ms. COUGHLIN. Mr. Chairman, I would be reluctant at this point to endorse any level of funding. The administration takes the position that we would oppose any reauthorization.

I would make the point that if this program, if there was a program, despite the administration's objection to it, one of the things that has concerned us in the last couple of years has been the level of earmarking.

We feel that it limits our ability, it limits the States' ability to outline their priorities. It takes away from the valuable process that this bill has established.

And while I would not endorse a reauthorization of the program, I particularly would like to point out that in this fiscal year, and we are almost now three-quarters of the way through the fiscal year, a very small number of those earmarked projects have actually come to fruition, have actually been submitted to the FRA for consideration.

So we feel that that is a limitation on the program, and we would hope that that would not be the case, if this program, against our recommendation, was reauthorized.

I would also say that——

Senator EXON. Let me just say that is probably the cruelest observation you have made here today, although I would agree with it.

To keep Members of Congress from earmarking something in their own States or their own district is about the cruelest exercise in cutting our throats that we could imagine. But I think you make a pretty good point.

Ms. COUGHLIN. Thank you, sir.

The other thing I would comment on: In any future bill, one structural item that FRA would hope might happen rather than the 70–30 share which is in the current legislation, we certainly would endorse a higher State share, and believe me, Senator, I am not endorsing either of the bills. We would oppose reauthorization in all cases.

But we believe that the greater the State contribution, the greater the commitment to the project. It is a healthy direction to move in when you increase the local share.

Senator EXON. Anything else that would change in the structure?

I think those are constructive suggestions you make.

Is there anything else that you think might make the program easier and better to administer, if we are going to have a program?

Ms. COUGHLIN. Not off the top of my head. It is a good, workable program. I certainly agree with Bill's side comment. It is a good program. We have had a good experience with the program.

Senator EXON. With the announcement that it is a good program and you have had good experience with it, I think that we will close out this panel.

Ms. COUGHLIN. But time to terminate it.

Senator EXON. Thank you very much for being here.

Ms. COUGHLIN. Yes, sir. Thank you for having us.

Senator EXON. We will now move on to panel No. 1, Mr. Horace B. Edwards, Secretary, the Kansas Department of Transportation and Chairman of the National Conference on State Railway Officials of the American Association of Highway Officials and Transportation Officials; and Mr. Chris Randall, Director of the Division of Railroads of the South Dakota Department of Transportation; Mr. Robert Evans, the State Rail Planner for North Dakota State Highway Department; and Mr. Paul Eckhoff, the Iowa Rail User's Association of Steamboat Rock, Iowa.

Welcome to you gentlemen, and without objection, we will just start out with the first testimony from Mr. Edwards, whose name I called first.

Mr. Edwards, please proceed with any statement that you have. I believe all or some of you have prepared statements and without objection, we will enter all of those statements of each of you in the record and ask that you summarize, please, at this time.

Mr. Edwards.

STATEMENT OF HORACE B. EDWARDS, REPRESENTING THE AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS; ACCOMPAINED BY WILLIAM T. DRUHAN, PROGRAM DIRECTOR, NATIONAL CONFERENCE OF STATE RAILWAY OFFICIALS

Mr. EDWARDS. Yes, thank you, Mr. Chairman.

We have submitted previously prepared statements, and I will summarize.

My name is Horace B. Edwards, and I am Secretary of the Kansas Department of Transportation, which State, Kansas, would be counted among the have-nots in this dialog.

However, today I am here representing the American Association of State Highway and Transportation Officials, AASHTO, in my capacity as Chairman of the National Conference of State Rail Officials, and I appreciate very much your invitation to appear today to express the association's support for the bills, providing for the reauthorization of the Local Rail Service Assistance Program.

We support both S. 2174, introduced by Senator Burdick, and S. 2195, introduced by Senator Harkin, as well as the H.R. 4547, which was introduced by Congressman Wyden. They all provide for reauthorization of the Local Rail Service Assistance Program, and although there are differences between these bills, AASHTO supports each and considers each bill or combination of them to be acceptable.

AASHTO has a policy position on this issue pertaining to LRSA which states and I will quote:

> The rail line abandonments, mergers, and acquisitions encouraged by the deregulation of the rail industry continues to cause dislocation of shippers and disruptions of economies throughout the United States. There is a continuing need for funding for the acquisition and rehabilitation of portions of the rail systems that are required by the public interest but which are not supported sufficiently by the private sector. AASHTO therefore urges Congress and the administration to continue rail assistance programs and to join in the development of an alternative funding program for rail assistance to assure preservation of an efficient rail transportation system.

And that is the conclusion of the AASHTO policy statement.

The States believe it is essential for the Federal Government to continue to be involved in the rail branch line preservation program. The Federal Government is involved in approving abandonments, and therefore must be involved in the solution to the problems thereby created. The Local Rail Service Assistance Program provides capital assistance for rehabilitation and improvements before rather than after abandonment. The program presently requires that 30 percent of the funding come from non-Federal sources for rehabilitation projects.

Actually, the States, as has been said here earlier, between them the States, the railroads and shippers have provided much more

than this 30 percent required for that match, and although non-Federal funding has been provided in excess of the required amount, it needs to be recognized that in most instances these funds would not have been made available without Federal and State seed funds. In some instances the State funds would not have been available without Federal seed funds.

Reauthorization, then, of Local Rail Service Assistance is needed because the problems this program was designed to alleviate have not been eliminated, and the transition which was spoken about earlier by the spokes person for the administration, that transition is still very much in process, and there has not been made an end to the very problems created by the Federal Government to which the states continue to need to respond.

Last year AASHTO initiated a Transportation 2020 Program involving the use of forums in each State. The testimony presented at those forums by various industry groups further confirmed the necessity for the continuation of the Local Rail Assistance Program.

In conclusion, Mr. Chairman, let me emphasize that the projects undertaken under LRSA have considerably enhanced the economic well being of many communities. These projects are begun only after an exhaustive and extensive cost-benefit analysis in order to achieve the greatest good for the least amount of money. The program has been overwhelmingly successful and has made a significant contribution to the overall transportation system of this country.

I just looked at one program that would require the abandonment of one rail line in Kansas in case the program was discontinued, and it would put on the highways, State-funded highways, 7000 additional 18-wheeler trucks a year just to pick up that load.

Thank you very much, Mr. Chairman.

[The statement follows:]

STATEMENT OF HORACE B. EDWARDS, REPRESENTING THE AMERICAN ASSOCIATION OF STATE HIGHWAY AND TRANSPORTATION OFFICIALS

Mr. Chairman, my name is Horace B. Edwards. I am Secretary of the Kansas Department of Transportation. Today I am representing the American Association of State Highway and Transportation Officials (AASHTO) in my capacity as Chairman of the National Conference of State Rail Officials.

I appreciate very much your invitation to appear today to express the Association's support for the bills providing for the reauthorization of the Local Rail Service Assistance program. S.2174 introduced by Senator Burdick, S.2195 introduced by Senator Harkin, and HR.4547 introduced by Congressman Wyden all provide for the reauthorization of the Local Rail Service Assistance program. Although there are differences among these bills, AASHTO supports all of the bills and considers each bill or a combination of the bills to be acceptable.

The states believe it is essential for the federal government to continue to be involved in the rail branchline preservation program. The federal government is involved in approving abandonments and therefore must be involved in the solutions to the problems thus created by assisting in rail line preservations where rail service is warranted in the public interest.

The AASHTO policy position pertaining to the Local Rail Service Assistance program states: "The rail line abandonments, mergers, and acquisitions encouraged by the deregulation of the rail industry continues to cause dislocations of shippers and disruptions of economies throughout the United States. There is a continuing need for funding for the acquisition and rehabilitation of portions of the rail systems that are required by the public interest but which are not supported by the private sector." The AASHTO policy also "urges Congress and the Administration to continue rail assistance programs and to join in the development of an alternative funding program for rail assistance to assure preservation of an efficient rail transportation system."

The LRSA Program was established by the Regional Rail Reorganization Act of 1973. It was originally designed to provide financial support to the states for the continuation of rail freight service on light density lines excluded from the Conrail system. Congress recognized that abandonment of thousands of miles of railroad would cause considerable hardship to many shippers and local communities in the region. The Railroad Reorganization and Rehabilitation Act of 1976 expanded the program to include all states. In 1978, the program was amended to provide capital assistance for rehabilitation and acquisitions before, rather than after, abandonment. In 1981, the program was further amended to specifically prohibit the use of funds for operating subsidies.

The LRSA Program presently requires that 30 percent of the funding come from non-federal sources for rehabilitation projects. Actually, the states, railroads, and shippers have provided many times the amount required for this match. Although non-federal funding has been provided in excess of the required amount, it should be recognized that in most instances these funds would not have been made available without federal and state "seed funds". In some instances the state funds would not have been available without federal "seed funds". Senator Harkin's bill (S.2195) provides for changing the matching formula whereby the federal share would be reduced from 70 to 60

percent. The states would have no objection to this formula change. The states usually require a match considerably greater than this amount in order to attain the maximum utilization of the limited federal funding.

The bills being considered today are concerned with providing continuation of funding and changing the federal share of the costs for the projects carried out through this program. There are, however, many other important aspects of the program that should be recognized when considering reauthorization. For example, the statute presently requires states to prepare a yearly rail plan. This plan assures that states are comprehensively evaluating all of the pertinent issues. Also, it requires the FRA to approve all projects. These approvals are based on a consistent criteria including a uniform cost/benefit ratio methodology. In short, the FRA assures that federal funds are expended in a manner that best fulfills the public interest. No changes are contemplated in any of these provisions.

Reauthorization of LRSA is needed because, although considerable efforts have been made and there have been significant accomplishments, the problems this program was designed to alleviate have not been eliminated. In 1985 we conducted a survey among the states to determine the extent of the total remaining capital needs for rehabilitation and acquisition. It was estimated that $1.33 billion was needed. A breakdown of this amount by state is attached. Mr. Chairman, you will note that Nebraska needs more than is being authorized for the whole program. Moreover, it is believed that the needs have increased considerably since 1985 for Nebraska and most other states because of the increase in rationalizations and decrease in available funding.

During the past few years, the railroad industry has been undergoing a number of major changes. The industry has been revitalized; it has gone from the brink of bankruptcy to modest profitability. These changes have been brought about primarily by partial deregulation, tax benefits, major technological improvements, and competition. Another development has been the merger of a number of large railroads. These mergers and the revitalization process resulted in many branchline abandonments. Railroads' line mileage declined by 64,062 miles between 1967 and 1985. The mileage decline was over 4 percent between 1984 and 1985 indicating that the current rate of abandonments is increasing. No region in the country has been exempted by the surge to rationalize systems.

The rationalization of systems by all major railroads in recent years has created the necessity to decide which of the lines being spun off should be retained and which should be abandoned. This is obviously a very difficult decision in many instances. Economic, social, political and demographic considerations must be balanced. The LRSA program is designed to assist in making these decisions as well as implement the decisions to retain service.

A significant change in the railroad industry in the past few years is that there have been many instances where service has been maintained on lines that in the past would have been abandoned. This was made possible through a proliferation of shortlines and what are termed "regional railroads." Reportedly over 150 such railroads have been formed in the past few years. The formation of these new railroads represents a significant change from prior

practices. Prior to the enactment of the Staggers Act in 1980 when railroads were completely regulated, it was in the carrier's best interest to neglect service and maintenance on marginally profitable lines until they became so run down there was no alternative to abandonment. Between 1980 and 1987 these lines were sold to entrepreneurs while they were still viable. The lines were attractive to new owners because the sales prices were reasonable and the newly formed railroads could utilize efficient operating procedures not available to large carriers. The sales prices were reasonable because the ICC interpreted the Staggers Act as not requiring the selling railroad to pay displaced workers severance benefits.

These new railroads, however, do have a number of difficulties, albeit different from those of the selling carrier. Unlike large Class I railroads, the new shortline and regional railroads do not have an economy of scale, maintenance facilities, management specialists, etc. Also, many new carriers under estimate the cost of the massive rehabilitation work invariably necessary. Moreover, it is difficult for many of these new carriers to obtain adequate capital. This becomes painfully evident when there is a derailment or a bridge washout. Although these incidents are not necessarily major catastrophes, they are nevertheless uncommon occurrences that are not always adequately considered when determining capital needs. Thus, many of these new carriers need assistance in getting organized and/or in order to continue operations after an unscheduled mishap.

These new railroads are essential to many communities throughout the country. It is in everyone's best interest that assistance be provided to enhance their survival. State rail agencies have been instrumental in the formation and continuation of many of these railroads. In order for these activities to continue, it is essential that the LRSA Program be reauthorized.

At the present time the continuation of forming new railroads is in doubt. The 3rd U.S. Circuit Court of Appeals affirmed a lower court ruling of labor's right to be at the negotiating table when railroads seek to sell branchlines. The court agreed with labor's contention that such sales impact work rules and conditions to a major degree and therefore subject to the provisions of the Railway Labor Act, not the Interstate Commerce Act (as amended by the Staggers Rail Act of 1980). The issue is being appealed to the Supreme Court and will undoubtedly be considered by the Congress. In the interim, whether railroads again revert to abandoning branchlines or are able to consumate sales with labor concurrence, there will be a continuing, if not expanded, need for the LRSA program. Many communities adversely affected by abandonments or proposed sales are solely dependant upon rail service. LRSA is essential to these needs.

In July 1987 in response to a congressional request, the United States General Accounting Office (GAO) examined issues related to abandonments and issued a report entitled "Rail Abandonments--Abandonment Activity and Shippers' Views on Rail Service Loss." It examined (1) the amount of mileage filed by railroads for abandonment and ICC's action on rail abandonment requests between 1970 and 1985, (2) shippers' and local officials' perspectives on the abandonment process, and (3) shippers' views on the effects of rail abandonments on their shipping operations. It reported that the ICC approved

39,783 miles for abandonment during the study period. With minor exceptions, "denial rates were less than 6 percent of the total mileage ICC considered each year." In brief the results of the study were:

> "Some rail shippers and community officials had difficulty obtaining railroad financial data and said ICC allowed them insufficient time to prepare evidence for an abandonment case. Shippers said their unfamiliarity with the abandonment process added to their difficulties. While ICC regulations specify that it is to inform shippers of available assistance, it does not normally do so until after the shippers have submitted their protest documents. By informing shippers of available assistance when railroads first notify ICC of their intent to abandon a line, ICC would allow shippers a better opportunity to obtain advice on how to best prepare their cases.
>
> "State transportation officials and rail shippers were also dissatisfied with ICC's consideration, during the abandonment process, of railroads' alternative investment opportunities when deciding a case.
>
> "Most shippers had found trucks to be an available, though more costly, substitute method of transportation after the abandonment. Shippers of bulk commodities appeared to have suffered more severe hardships. In some cases they found it necessary to relocate their businesses or modify their shipping facilities after rail abandonments."

The GAO report points up the fact that the LRSA Program is essential to the needs shippers in preventing abandonments. Although difficulties with the ICC were emphasized by GAO, it should be recognized that proposed abandonments are the root cause of the problem and the LRSA Program is necessary to alleviate the problem as well as the difficulties caused by the ICC.

Last year Congress mandated that FRA conduct a study to determine the extent of deferred maintenance on Class II and III railroads. The study is presently estimated to be completed in September. Although the exact extent of deferred maintenance is not known at this time, it can be reasonably assumed that the amount is significant. The mandating of the study was surely based on the knowledge that a major problem exists; it is only the magnitude of the problem and specificity of locations that are not known. The LRSA Program is designed to assist in alleviating deferred maintenance problems. LRSA must be continued this year and not await the completion of the FRA study which will define the problem.

AASHTO has initiated a "Transportation 2020 Program." This program is a multi-year effort to develop a consensus transportation program that will meet the nation's needs through the 1990s and well into the 21st century. As an integral part of this program, an unprecedented series of 64 public forums were held all across the United States between August 1987 and May 1988. Testimony was received in these forums from railroad interests, government officials, and a cross section of industries which depend on reliable rail service. The draft report on these forums indicates a recurring theme in the testimony that rail service must be given adequate consideration in transportation planning for the 21st century. The LRSA Program will be essential to the necessary rail service and must be continued.

Mr. Chairman, during the forum held in your state of Nebraska a number of witnesses pointed out hardships presently being encountered as a result of rail abandonments. The Nebraska Farm Bureau pointed out the increase in rural road use caused by rail abandonments; co-op grain elevators testified as to their difficulty in moving grain to market; it was even pointed out that stone hauling has shifted from rail to highway due to abandonments. The report quotes similar problems in Minnesota, Idaho, North Dakota, Colorado, and Washington. A number of industrial producers testified as to the benefits of rail service that has been restored. A number of other industry representatives cautioned as to the dire circumstances which would result from additional abandonments and/or failure to restore and maintain lines already abandoned or scheduled for abandonment. In short, the testimony uniformily affirms the necessity to continue LRSA.

In conclusion, Mr. Chairman, let me emphasize that the projects undertaken under the LRSA program have considerably enhanced the economic well being of many communities. These projects are commenced only after an exhaustive cost/benefit analysis in an attempt to achieve the greatest good for the least amount of money. The program has been overwhelmingly successful and has made a significant contribution to the overall transportation system of this country. The success rate for these small businesses is much greater than in any other industry. Ohio reports for example, that the government funded branchline programs during the last three years have developed or is developing 27 projects which helped or will help preserve 11,345 jobs and create an additional 3,146 jobs at a cost to state and federal tax payers of only $793 per job. It is doubtful if any other federal program of this nature can match the needs and success of this program.

Again, Mr. Chairman, thank you very much for allowing me to appear today. I would be pleased to attempt to respond to any questions you or the committee may have.

Estimated Total Remaining
Rail Capital Needs For
Rehabilitation & Acquisition
By State

January, 1985

Alabama	$ 4,094,461	Montana	30,038,127
Alaska	30,000,000	Nebraska	45,000,000
Arizona	4,029,000	Nevada	2,100,000
Arkansas	10,085,824	New Hampshire	16,500,000
California	11,500,000	New Jersey	2,125,187
Colorado	924,228	New Mexico	432,000
Connecticut	3,750,000	New York	187,000,000
Delaware	500,000	North Carolina	19,098,000
Florida	8,154,393	North Dakota	197,000,000
Georgia	22,819,827	Ohio	15,000,000
Hawaii	None	Oklahoma	10,000,000
Idaho	3,500,000	Oregon	12,316,000
Illinois	32,500,000	Pennsylvania	13,000,000
Indiana	1,500,000	Rhode Island	2,000,000
Iowa	136,829,000	South Carolina	20,860,000
Kansas	65,579,500	South Dakota	30,000,000
Kentucky	1,500,000	Tennessee	30,110,000
Louisiana	5,000,000	Texas	48,000,000
Maine	20,886,000	Utah	None
Maryland	6,700,000	Vermont	3,934,600
Massachusetts	5,000,000	Virginia	4,300,000
Michigan	85,000,000	Washington	3,000,000
Minnesota	40,000,000	West Virginia	6,000,000
Mississippi	12,000,000	Wisconsin	21,000,000
Missouri	100,000,000	Wyoming	None

Estimated Total United States
Remaining Rail Capital Needs
For Rehabilitation & Acquisition $1,330,666,147

Senator EXON. Thank you, Mr. Edwards.

Mr. Randall, I am pleased to recognize you now, and I know that South Dakota has been one of those States that has been particularly hard hit with the change or lack of rail service, and we are very much looking forward with interest to your testimony.

STATEMENT OF CHRISTOPHER M. RANDALL, DIRECTOR, DIVISION OF RAILROADS, SOUTH DAKOTA STATE DEPARTMENT OF TRANSPORTATION

Mr. RANDALL. It is a pleasure to be here, Mr. Chairman. We appreciate the invitation.

My name is Chris Randall, and I am Director of the Division of Railroads for the State of South Dakota. I also serve as Chairman of the Federal Funding Task Force for AASHTO.

Many States in addition to South Dakota believe strongly in retaining the partnership that LRSA has forged to rehabilitate and save the important elements of this Nation's rail infrastructure. The benefits of this program are well understood by the farming community, as evidenced by the letter attached to my written testimony submitted by South Dakota Wheat Growers, an association owned by 5,000 grain producers in South Dakota.

Today I would like to briefly summarize my written statement and specifically explain why the program is needed, explain who needs the program, and share one of our success stories.

Simply put, the job that Congress set out to do in 1978 with this program is not finished. That job was to save feeder lines that are essential to the shippers and the communities that they serve. There are still many viable lines that are burdened with deferred maintenance. Unless we can rehabilitate these lines through a one-time investment, an investment that results in the line's being self-sustaining for the long term, they will be abandoned.

South Dakota has already lost 56 percent of its rail system, and Mr. Chairman, that is enough.

Who needs LRSA? Shippers do so that they can compete in their markets. Producers, and in my State, and in your State, that means farmers, because every unit train shipped to a distant market by rail, instead of being sold to local markets, means an extra $35,000 in farm income.

Our economy needs the program because farm income is spent on Main Street, and Main Street in rural America is struggling, too.

Indirectly, railroads, and particularly regional railroads and shortlines, need the program to obtain outside assistance to augment their capital programs and save vital feeder lines. These rail systems are often the last hope for preserving service on these lines, and unless we can provide capital help, even this opportunity will be lost.

The success story that I would like to share with you today is what we call the South Dakota core system. This system is approximately 363 miles in length and serves much of the State's most productive agricultural area. It was formerly owned by the Milwaukee Road and was abandoned in 1980. Later that year it was pur-

chased by the State of South Dakota, without Federal assistance, for $14.9 million. Service was restored in 1981.

When purchased, the track failed to meet standards for 10 mile per hour service, and it could not support unit train operations. Since that time, $19 million has been invested in the track, with only 42 percent provided by the Federal government. The remainder has been provided by South Dakota.

The core system now supports 25-mile-per-hour unit train service. Traffic has increased each year and has exceeded 12,000 cars in each of the last 3 years. The core system has never received a State or Federal operating subsidy.

One of the benefits of stable, dependable rail service on the core system has been private investment in modern grain handling facilities. These investments have varied from additional storage capacity to improved side tracks and entirely new facilities. The core system now enjoys 10 elevators that ship unit trains where none existed previously. Improvements have also occurred in facilities for handling other commodities such as fertilizer and a manufacturing plant that receives raw materials by rail, and which undertook a $6.5 million expansion which generated more than 100 new jobs. Some of those jobs, incidentally, were in your State as the manufacturing facility is located on the Missouri River at Yankton, SD.

In summary, Mr. Chairman, the LRSA Program works. It provides a one time investment in viable projects. It acts as a catalyst, providing seed money and attracting investments by States, railroads and shippers. It saves essential rail lines from certain abandonment.

This program is a partnership, and we need Federal participation to continue our past successes.

For these and the other reasons set forth in my prepared testimony, we enthusiastically support reauthorizing the LRSA Program.

Thank you for the opportunity to appear before you today.

[The statement follows:]

STATEMENT OF CHRISTOPHER M. RANDALL, DIRECTOR, DIVISION OF RAILROADS, STATE OF SOUTH DAKOTA DEPARTMENT OF TRANSPORTATION

Mr. Chairman and Members of the Subcommittee: Good Afternoon. I am Christopher M. Randall, Director of the Division of Railroads for the State of South Dakota. South Dakota greatly appreciates your invitation to participate in today's hearing on proposed legislation to continue the Local Rail Service Assistance Program (LRSA).

South Dakota strongly supports continued authorization of (and appropriations for) LRSA. This highly meritorious program has been of particular help to the hard-pressed farming community in our State. Accordingly, we highly commend Senators Burdick and Harkin for introducing legislation (S. 2174 and S. 2195, respectively) to continue this program, and equally commend their many co-sponsors, including Senator Rockefeller and Senator Pressler of our own State. We also commend you, Mr. Chairman, for scheduling a hearing on these bills so soon after they were introduced.

OVERVIEW OF POSITION IN SUPPORT OF LRSA

Our strong support for this program is the result of our favorable experience with LRSA grants. In our State we have consistently seen Federal investments in rail rehabilitation through this program pay extraordinary dividends by enhancing the economic viability of agriculture and business in rural areas.

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LRSA grants are truly long term investments in our nation's infrastructure. LRSA helps rehabilitate rail lines that can be operated profitably once rehabilitated but which, for whatever reason, have either not been maintained adequately or not upgraded to modern standards. And when I say operated profitably, Mr. Chairman, I mean with future maintenance expenditures by the carrier. Thus, Federal investment under the LRSA program is in rail service which becomes self-sustaining.

While we are able to make these statements from practical experience, the theoretical basis for these results is also sound. LRSA is a matching fund program. Federal money is not provided unless there is also non-Federal money (be it state, carrier, or shipper) in the project. Thus, projects supported by LRSA are proven in advance, by the matching share requirement and other application requirements, to be viable and needed. Simply, to get LRSA dollars people also have to contribute significant resources of their own, something which is not done lightly.

On the other hand, while these projects are worthwhile and are able to attract non-Federal financial support, they are not quite able to advance without Federal "seed" money. Later in my statement I will describe specific cases where LRSA projects have provided significant economic benefits to farmers and others. These major benefits fully warrant the continuation of this program at least at the levels called for in the bills before the committee.

Let me also note at the outset that while I appear today on behalf of the State of South Dakota, I believe that our views are representative of the views of other states. My exposure to the views of other states comes from my work through the years on committees of the American Association of State Highway and Transportation Officials (AASHTO). I am currently serving as Chairman of AASHTO's Federal Rail Funding Task Force. Although I am not here today to represent AASHTO, I want to tell you that the Task Force was formed last year because states are extremely concerned with the scheduled termination of LRSA, and the Task Force members were charged with the responsibility to work towards maintaining Federal participation in rail rehabilitation. In addition to South Dakota, states serving on the Task Force are West Virginia, North Carolina, Iowa, Tennessee, and Ohio.

In the balance of my testimony today, I will first provide some background on LRSA which demonstrates how truly necessary and beneficial the proposals before the Committee are. I will then provide some specific examples of how the program helps people in rural communities. While my examples concern rail service used by South Dakota shippers, I believe they are also fairly representative of the experience of other states. I will close with some specific comments on the pending legislation.

BACKGROUND

During the rail crisis years of the 1970's, Congress made major expenditures to preserve rail freight service. In addition to expenditures specifically for Conrail and for major bankrupt roads, three nationwide programs of financial assistance to improve rail infrastructure were established. A redeemable preference share program and a loan guarantee program were established in 1976 and, in 1978, LRSA was modified so that LRSA funds could be used for rail rehabilitation and acquisition projects.

These assistance programs helped address the industry's critical shortage of capital resources and, combined with major changes in railroad regulatory and abandonment policy, enabled railroads to improve their service quality and increase their capital investment programs. The industry is much more stable than it was in 1978, although this stability has resulted in part from the loss of thousands of miles of track and several railroad bankruptcies. The improved financial performance of most surviving carriers has resulted in the significant reduction of deferred maintenance on many lines.

However, as we meet here today, there are still many light density lines which could well be lost to service because it is not possible for the carrier to make, *on its own*, the investment in rehabilitation which is necessary to make up for lack of capital investment in the past. We fully expect that these lines would stay in service, without further assistance, after rehabilitation involving LRSA funds.

However, Federal support for investment in rail facilities has dropped off dramatically. Last year Congress effectively terminated the ability of USDOT/FRA to use the redeemable preference share program (45 U.S.C. § 825) to make further investments in rail infrastructure. The loan guarantee program (45 U.S.C. § 831) has been inactive and the authorization for LRSA is set to expire at the end of this fiscal year.

While the rail situation in this country is better than it was in the seventies, we feel that complete Federal "abandonment" in the area of rail infrastructure investment is unwarranted and would work to the detriment of rural farmers and industries. Compared to past Federal investments, which included a $1.4 billion multi-year authorization for purchase of preference shares, the funding levels proposed in the pending bills represent a major accommodation of budgetary concerns—but would at least preserve this highly beneficial program. We believe that, at a minimum, LRSA should be continued at levels such as proposed in S. 2174 or S. 2195.

BENEFITS OF LRSA PROGRAM

We believe it is particularly important to continue LRSA because the program works in a way which greatly leverages each Federal dollar spent, yielding greater benefits than expenditures.

LRSA represents a true Federal-State partnership in rail rehabilitation. States are required to conduct rail planning before requesting financial assistance for a project. The rail planning requirement not only results in a benefit-cost study of each project, it also causes states to closely examine their rail systems and select projects with the greatest overall economic and transportation benefit. This process has resulted not only in selection of worthy projects, but in the development of financial support for them. Because support has been generated by the states, the Federal share of project expenditure has often been reduced from the statutory 70 percent maximum to lower levels, allowing each Federal dollar to "go farther." In South Dakota, LRSA funds have averaged only 54 percent of project costs. Without question, the LRSA program is the reason why thousands of miles of track are in service today.

Similarly, we will lose fewer lines in the future if we are able to restore those with economic potential to safe, efficient condition. It is particularly important that LRSA have the opportunity to work in conjunction with the emergence of this nation's regional railroad industry. Regional railroads typically operate marginally profitable lines that require significant rehabilitation to eliminate deferred maintenance and enable efficient service. They face scarce resources for capital investments, however, and their top investment priorities are their main lines. LRSA is ideally suited to complement their priorities by providing critically-needed financial assistance to branch lines. Ownership by regional railroads is often the only hope for saving many of these lines, and even this glimmer of hope will be lost unless states, shippers, railroads and the Federal government can work together and provide rehabilitation assistance. Our experience clearly demonstrates that regional railroads are willing financial participants in these rehabilitation projects, but that Federal seed money is needed.

The many benefits of LRSA result from the very nature of the assistance which it provides. As mentioned earlier, LRSA helps rehabilitate rail lines that can be operated profitably after rehabilitation but which, for whatever reason, have either not been maintained adequately or have not been upgraded to modern standards. The program does not provide operating subsidies or perpetuate inefficiency, but rather permits lines to better serve their customers and compete in the marketplace. LRSA funds and matching funds have been used to purchase crossties, rail and ballast, to re-build bridges, and to install new connections between lines. The LRSA Program is not a Federal give-away; it provides seed money for investing in America's rail infrastructure. The program can also be used for rail acquisitions (although South Dakota has not used it for this purpose) and for state rail planning activities.

Saving rail lines has many benefits, particularly for our rural areas, which are highly reliant on efficient, affordable transportation. We usually think of grain elevators and others located on rail lines as the primary beneficiaries of rail service, but, to use agriculture as the example, it is farmers who benefit most from the availability of rail service.

South Dakota is hundreds of miles from domestic grain markets and half a continent away from the Gulf and Pacific Northwest export markets. Without rail service, South Dakota would be virtually foreclosed from participating in the export markets and severely limited in competing in the domestic markets. Grain elevators pay producers at least five cents more per bushel when they are able to ship by rail. This amounts to $165 per rail car and almost $9,000 per 54 car unit train. Unit trains actually yield a much greater advantage because they enjoy lower rates than single car shipments. These unit train rates can represent up to a $35,000 advantage per train for farmers, and these benefits indirectly flow to farm suppliers and other businesses on Main Street. Clearly, our State's agricultural economy would be in

significantly worse condition if it were not for rail service over lines that have been rehabilitated with LRSA funds.

Accordingly, LRSA is strongly supported by agricultural interests in our state, and I have attached to my testimony letters supporting the program from, among others, the 5,000-plus member South Dakota Wheat Growers Association.

Let me also mention that preserving the economic viability of rural communities by preserving rail service allows trucks and railroads to complement each other in serving shippers. Trucks collect grain from off-rail producers and elevators and deliver it to large grain terminals that ship by rail, often by unit train. Another side benefit which can also result from these rail improvements is a downward competitive pressure on the cost of truck service to and from these areas.

These and other benefits of the LRSA Program can be summarized as follows. The program saves viable rail lines from abandonment by providing critically needed capital resources for rail line rehabilitation. By making the investments needed for viable rail service, LRSA preserves employment at local businesses, retains economic viability and development options for communities, and encourages private investment in shipper facilities by providing clear evidence that rail service will be provided over the long term.

CASE STUDIES

The benefits of the program become more evident when one considers the projects we have completed in South Dakota with LRSA funds.

At one time there were approximately 4,400 miles of track in service in South Dakota. Today, 1,951 miles are still in service. That 1,951 miles includes 848 miles which went out of service as a result of the Chicago, Milwaukee, St. Paul and Pacific bankruptcy, but which were purchased by the State of South Dakota and returned to service. In other words, even with the program, South Dakota has lost 56 percent of its rail system and would have lost 75 percent if it had not been for extraordinary efforts to preserve a basic "Core System" of rail lines. LRSA was an essential tool in the rehabilitation of those lines and their return to service.

Other portions of South Dakota's rail system have also experienced restructuring, as evidenced by the fact that only 28 percent of South Dakota's active rail lines are owned by ICC Class I railroads. Of the remaining lines, 44 percent are owned by the State of South Dakota and 28 percent are owned by non-Class I carriers, including one of the nation's largest regional railroads, the Dakota, Minnesota and Eastern.

The case studies which follow and which illustrate the value of the program are:

The South Dakota Core System;

The Sioux Valley Lines;

The Refield to Mansfield Line;

The Pierre to Wolsey Line; and

The Sioux Falls to Madison Line.

THE SOUTH DAKOTA CORE SYSTEM

The South Dakota Core System is approximately 363 miles in length and serves much of the state's most productive agricultural area. It was formerly owned by the Milwaukee Road and was abandoned in 1980. Later that year it was purchased by the State of South Dakota, without Federal assistance, for $14.9 million. Service was restored in 1981.

When purchased, the track failed to meet even standards for 10 mph service and it could not support unit train operations. Since that time, $19 million has been invested in the track, with only 42 percent provided by the Federal government. The remainder has been provided by South Dakota.

The Core System now supports 25 mph unit train service. Traffic has increased each year and has exceeded 12,000 cars in each of the last three years. The Core System has never received a state or Federal operating subsidy.

One of the benefits of stable, dependable rail service on the Core System has been private investment in modern grain handling facilities. These investments have varied from additional storage capacity to improved side tracks and entirely new facilities. The Core System now enjoys 10 elevators that ship unit trains where none existed previously. Improvements have also occurred in facilities for handling other commodities, such as fertilizer, and in a manufacturing plant that receives raw material by rail and which undertook a $6.5 million expansion which generated more than 100 new jobs.

THE SIOUX VALLEY LINES

The Sioux Valley Lines are composed of two separate lines, one a former Milwaukee line and one a former Chicago and North Western line. Together, they represent 67 miles of track, 36 of which lie in Iowa, but which also serve South Dakota grain producers. The lines were purchased by South Dakota but were not included in the Core System, and the state worked with the shippers to try and restore rail service. This was accomplished, and a program was initiated to rehabilitate and upgrade the lines to the minimum level needed to support viable service, even though at very low speeds. The project cost $812,000 and included no Federal funds. In fact, 40 percent of the funds were obtained from shipper contributions and another 34 percent was a loan from South Dakota that the shippers have almost entirely repaid. Only 26 percent of the project cost was provided through a state grant.

In 1987, South Dakota applied for, and received, funds to begin rehabilitating one of the Sioux Valley lines so that it could sustain train speeds up to 25 mph. That 18 mile project is now in progress and we plan to apply for funding to complete the project if the program is reauthorized. The line is used not only by several train elevators but also by a major rock quarry that produces construction aggregates and railroad ballast. Without this rail line the quarry's ability to compete, even in its historic markets, would be adversely affected. We believe this project illustrates the need for Federal rail funding and exemplifies the fact that our rail rehabilitation work is not yet complete.

REDFIELD TO MANSFIELD

Without doubt, the Redfield to Mansfield line would not exist if it were not for the LRSA Program. Formerly owned by the Chicago and North Western, it was almost inoperable when it was purchased by the Dakota, Minnesota and Eastern Railroad (DM&E) in 1986. I can honestly say that I have seen abandoned track in better condition than this track, which was in service. The line is 26 miles in length and is only a few miles from other rail lines, but its greatest asset is a group of shippers totally committed to rail service.

The line was only a small part of the DM&E system and was not a high priority for rehabilitation because the DM&E main line also required substantial rehabilitation. Nevertheless, the line was important as a traffic generator and the shippers, the DM&E, and South Dakota believed it should be saved. LRSA funds were received, and today this line supports rail service at 25 miles per hour without weight restrictions. The DM&E participated financially in the project and enjoys the traffic generated on the line. The improvements have also enabled the shippers to maintain their markets in a highly competitive environment.

PIERRE TO WOLSEY

The Pierre to Wolsey line is a 107 mile portion of the former C&NW (now DM&E) main line through central South Dakota. In 1980, train speeds were restricted to 10 miles per hour, there were frequent derailments, and it looked very possible that the entire line to Rapid City (a total of 273 miles) could be abandoned. In fact, the western part of the line, 166 miles, was once the subject of an abandonment proceeding and continued in service only by virtue of a tie vote at the ICC. With the help of LRSA funds, the Pierre to Wolsey line was rehabilitated to 25 mph standards and survived to be acquired by the DM&E, which plans further rehabilitation and maintenance programs. If this line had been lost, there would have been a substantial and negative impact on South Dakota's agricultural economy. To illustrate this fact, the grain elevator at Pierre, the state capital, handled approximately 14 million bushels of grain in 1987. Virtually all of it was shipped by rail over the Pierre to Wolsey line. If the line had been lost, it is extremely doubtful that the DM&E would have been formed and very likely that lines now operated by the DM&E would have been abandoned by the C&NW. Additionally, the lack of rail service would have forced grain producers to plant alternative crops or pursue other agricultural interests.

SIOUX FALLS TO MADISON

In 1980, the Burlington Northern's Sioux Falls to Madison line was the sole survivor in an agriculturally productive part of South Dakota. Unfortunately, the line was unable to support unit trains or rail service above 10 miles per hour. An innovative funding package raised the $5.7 million needed to completely rebuild the track and make it one of the most efficient grain-gathering lines in South Dakota. The rehabilitation program motivated Burlington Northern to acquire 6 miles of

abandoned Milwaukee track and restore service to a major grain terminal. The funds included assistance under LRSA (31 percent), and from Burlington Northern (27 percent), and a loan from the shippers to BN (42 percent).

If this line had been abandoned, a large portion of South Dakota would have been denied rail service and the impact on the agricultural economy would have been significant. The LRSA Program provided critically-needed funds to not only save the line but rehabilitate it to the condition needed to serve its customers.

PENDING LEGISLATION, S. 2174 AND S. 2195

We heartily support both S. 2174 and S. 2195. Both of them would correctly extend LRSA and maintain its basic structure.

As between the two bills, we prefer the greater program stability that would be provided by S. 2174's five year authorization to the three year authorization in S. 2195. However, we support the $35 million annual authorization contained in S. 2195 over the $30 million annual authorization contained in S. 2174. We believe that program needs more than justify an authorization of this size. Indeed, a 1985 nationwide AASHTO survey identified $1.33 billion in needs in 47 states which could be addressed under LRSA.

Both bills would change the matching share requirements of present law by reducing the maximum permissible level of Federal participation. We would prefer not to reduce the current 70 percent maximum Federal share and believe this legislative change is unnecessary. As I have described, even without legislation, many LRSA projects have been completed with less than 70 percent Federal participation. As for South Dakota, we would not object if, in order to make LRSA funds go further, a slight reduction in the Federal share were enacted, such as proposed in S. 2174 or S. 2195. Moreover, in general, many states and other interested parties would be hard pressed to come up with the additional funds that would be required to make up for a significantly reduced Federal share.

A continued substantial Federal matching share, as well as continued Federal LRSA funding itself, is also warranted by practical limitations on the ability of States to contribute funds. South Dakota and a number of other states are prohibited by their constitutions from using public funds for private purposes. Thus, we can provide state funds for rail projects only on state-owned lines or through political subdivisions that are also participating in the project. I wish to emphasize that few, if any, states possess the funding mechanisms to replace LRSA funds with state funds. Rehabilitation of light density rail lines has been, and should continue to be, a partnership of Federal and state government and private parties. Given these restrictions on state funding, as well as a shortage of funds, the loss of Federal funds would severely restrict our rail rehabilitation options and result in rail line abandonments.

We are also pleased that, under both of the bills before us today, LRSA funds could be used by States for rail planning. Historically, it has been the practice under the LRSA Program to make $50,000 available to each state for the purpose of performing state rail planning. States use these funds for state personnel salaries or for other planning efforts, and this rail planning assistance is the primary reason why many states have undertaken these very beneficial activities. States are now much more able to assist shippers with their rail service problems and to work with other transportation planners to design transportation systems that maximize the strengths of each transportation mode. States that choose not to utilize all their allocation of funds for planning purposes are able to use them for rehabilitation projects. We recommend that Federal assistance for state rail planning be continued.

THE NEED FOR APPROPRIATIONS

Implicit in our support for rail planning funds, and for funding at least at the levels that would be authorized by S. 2174 and S. 2195, is our support for appropriations for the program in amounts which would support both rail planning and project expenditures.

As to project expenditures, in recent years, legislation appropriating LRSA funds has specifically designated where most assistance should go. Previously, funds were awarded for projects after the Federal Railroad Administration evaluated competing applications filed by the states. We are comfortable with and prefer the FRA's review process. We believe that it does help ensure that Federal taxpayers get the most for their LRSA dollars. We hope that a reauthorized LRSA will be administered under such a process. However, if a continued LRSA results in specific alloca-

tion decisions being made in Congress, it is our intention to work with the Congress so that those allocation decisions will be made with knowledge of proposed projects.

However, our main concern with appropriations for this program is to secure them, as they are needed if the LRSA program is to succeed. Thus, we urge this Committee to work with the Members of the Appropriations Committee and other Members of Congress not only to pass authorizing legislation, but appropriations for this program as well.

SUMMARY AND CONCLUSION

Mr. Chairman, South Dakota greatly appreciates this opportunity to express its view that the Local Rail Service Assistance Program should be continued. It is a program that has been extremely successful in saving rail lines, improving rail service, and maintaining the economic viability of rural America. We enthusiastically support it.

LRSA is not a rail operating subsidy program. It is a rail infrastructure improvement program that is needed to address the deferred maintenance problems that were inherited from a time when the rail industry was typified by bankruptcies and virtually non-existent resources.

We have accomplished much during the first 10 years of LRSA support for infrastructure improvement, but there is still more that we need to do together. LRSA represents a successful solution to some of the rail infrastructure problems and it is a method of uniting states, shippers, railroads, and the Federal government toward the common goal of saving rail service which is needed, particularly in small farm communities.

South Dakota therefore respectfully requests that the Congress enact legislation needed to reauthorize this program and provide appropriated funds for it. For our part, we pledge our efforts to maintain the record of achievement that the program enjoys.

Thank you again for the opportunity to testify. At this time I would be pleased to answer any questions the Committee may have.

Senator EXON. Thank you, Mr. Randall.

Mr. Evans, you have heard your Senator, Quentin Burdick, earlier. We want to welcome you here from the State of North Dakota because, like so many of our states in that area, you have got rail problems, and we are anxious to hear your testimony.

STATEMENT OF ROBERT P. EVANS, STATE RAIL PLANNER, NORTH DAKOTA STATE HIGHWAY DEPARTMENT

Mr EVANS. Mr. Chairman, I am very pleased to be here today, and I appreciate the invitation to come testify on behalf of this program for our state, North Dakota. We are extremely pleased that Senator Burdick has introduced the legislation to continue, to reauthorize LRSA. We are also leased that Senator Harkin has introduced similar legislation.

The North Dakota agricultural economy depends on rail service. Nearly 80 percent of the state's rich grain and oilseed production is shipped by rail. The loss of 700 miles of branch line through abandonment since 1980, approximately 20 percent of our branch line system, has resulted in higher grain transportation costs for farmers, higher road costs, and the degradation of the towns which have lost rail service.

Losing a branch line takes place over several years and with many painful decisions along the way. As a result of poor services, shippers who use the line and the area farmers that patronize those shippers must adopt alternative business plans. Then, because of the reduced business volumes, the railroads further reduce service and track maintenance activities in order to preserve what little revenue remains. Abandonment is just the final act in a long process of deteriorating service and revenues.

With local rail service assistance, North Dakota has reversed this cycle on over 200 miles of branch lines. Rehabilitation of another 80 miles is expected this summer. In addition, the railroad companies have upgraded some trackage with private funds. Most of the state's 3000 miles of branch lines, though, still need to be modernized and are still in danger of the self-destructive abandonment cycle I have just described.

North Dakota is fortunate to have provided LRSA funds to our railroads on a loan basis. The $800,000 of loan repayments received annually will rehabilitate between 10 and 40 miles of branch line, depending on the condition. Obviously we cannot make much progress on the overall need at that rate. In addition, we have no cushion for major disasters. Nearly 700 miles of track is being operated by two recently formed regional railroad spinoff companies. From reports to date, rail service has been improved and funds have been invested in track maintenance.

We need a program to help these companies avoid disasters which might otherwise jeopardize successful and viable railroad operations. A need exists for continued, albeit limited Federal involvement in rail planning and programming.

First, almost all decisions concerning the rail industry are made either by the Federal government or large, multistate railroad companies. These decisions sometimes create major disruptions in local rail service. Second, many states depend on LRSA funds for rail planning and programming and would discontinue such programs if funds were not available. It is unlikely that coordinated rail planning between the states and Federal government would be able to continue without this program.

Mr. Chairman, LRSA has been a useful and productive program. It provides benefits far in excess of costs, both on a local and systemwide basis, and we urge favorable action to continue this program.

[The statement follows:]

STATEMENT OF ROBERT P. EVANS, NORTH DAKOTA STATE RAIL PLANNER

Mr. Chairman and Members of the Committee, my name is Robert Evans. I am the State Rail Planner at the North Dakota State Highway Department. The Highway Department was designated by the 1979 North Dakota Legislative Assembly as the agency responsible for rail planning and for administration of funds available through Local Rail Service Assistance.

Because of conditions and needs which will be discussed in detail in this testimony, North Dakota supports any legislation which results in the reauthorization of Local Rail Service Assistance. In that regard, the State generally supports both S. 2174 by Senator Burdick and S. 2195 by Senator Harkin. Specifically, we support the extended time frame and program provision of S. 2174 and the annual dollar amount found in S. 2195.

Local Rail Service Assistance in North Dakota

North Dakota has been an active participant in the Local Rail Service assistance program. Since 1979, the state has been allocated over $9.8 million, approximately $800,000 for planning, and $9 million for various rail improvement or alternative service projects located throughout the state. A summary is contained in the table below.

TABLE 1.—NORTH DAKOTA LOCAL RAIL SERVICE ASSISTANCE FUNDS BY YEAR

Projects:	Federal appropriation	State allocation	State percent	Planning	Projects
Years:					
1979	$69,000,000	$697,232	1.01	$100,000	$597,232
1980	80,000,000	1,642,310	2.05	100,000	1,542,310
1981	40,000,000	1,532,171	3.83	100,000	1,432,171
1982	35,000,000	1,766,028	5.05	100,000	1,666,028
1983	20,700,000	1,053,307	5.09	100,000	953,307
1984	15,000,000	731,270	4.88	100,000	631,270
1985	15,000,000	668,623	4.46	0	668,623
1986	14,355,500	1,023,202	7.13	100,000	923,202
1987	10,000,000	297,157	2.97	50,000	247,157
1988	9,200,000	423,000	4.60	48,000	375,000
Total	308,255,500	9,834,300	3.19	798,000	9,036,300

North Dakota has submitted applications on each and every occasion when funds were made available on a discretionary basis. North Dakota got the attention of the Federal Railroad Administration in the first LRSA discretionary application proceeding by submitting 8 applications totalling $13.9 million of LRSA funds for projects totalling $19.8 million. With just a little over a million dollars available, one FRA official called it one of the biggest cases of overkill ever witnessed. We knew those applications were unrealistic, but the word was already out that the Administration wanted to scrap the program. We were just getting started and wanted to make a strong statement.

The state, in follow-up, submitted a reduced application for one project for a total of $220,619. Fortunately, funds have been made available to North Dakota in each ensuing discretionary funding opportunity. We in North Dakota are extremely thankful for the willingness of FRA to work with us on these discretionary project applications as they have made a significant difference in the state's rail system.

Projects funded partially with LRSA funds have brought about the rehabilitation of over 200 miles of North Dakota branchlines. Another 80 miles of branchline trackage is planned for rehabilitation this summer. The railroad companies serving North Dakota have made significant efforts to complete many more miles of branchline trackage. But, much of the work on those lines identified in 1983 still remains. In the meantime, over 5 years have elapsed and some of the trackage is deteriorating badly, not having been originally built to sufficient standards for modern railroading practices. In addition. many other lines of similar significance await opportunities for development.

It is significant that North Dakota has been able to carry out its branchline improvement activities by providing funds for rehabilitation on a loan basis. This has allowed for the accumulation of a small but stable pool of assets which will provide for ongoing railroad rehabilitation needs. The state pool is about $6 million and provides a cash flow of approximately $800,000 per year for new projects. This is adequate for 10-40 miles of rehabilitation work depending on track condition and shipment needs. With almost 3,000 miles of branchline eligible for projects under the program, we have a long way to go.

The following sections discuss the factors which make Local Rail Service Assistance so important to North Dakota: dependence on railroad transportation, extensive branchline network, railroad abandonment, and regional railroad developments. In a final section, the need for a federal role will be discussed.

NORTH DAKOTA'S RAIL TRANSPORTATION DEPENDENCE

Because of its location at the center of the North American Continent, lack of navigable waterways and distance from major markets, North Dakota is probably the state most dependent on rail service for movement of its goods. In addition, North Dakota is primarily an agricultural state. Between 50 and 55 percent of all state income is due to the production of crops and livestock. Nearly all of these products are shipped out of state for processing and consumption. Unfortunately the state's closest major grain markets (Minneapolis/St. Paul and Duluth/Superior) are located more than 200 miles from the nearest North Dakota point. Energy is a sec-

ondary industry. Products are bulky, of low value and must be hauled long distances, conditions for which modern railroad service is ideally suited.

Truck transportation, the only alternative mode in North Dakota, is relatively inefficient and ineffective for the types of products produced. One large semi-truck can only haul about 850 bushels of wheat, while one rail car can haul 3300 bushels. Rail modal share of North Dakota grain and oilseed products has grown from a low of 59 percent in the 1978–79 crop year to 73 percent in the 1985–86 crop year. In addition, trucks require approximately 4 times as much fuel to haul the same quantity of product. Finally, trucks require huge public expenditures for roads, while railroads provide and maintain their own rights of way.

NORTH DAKOTA RAIL NETWORK

The North Dakota rail system, consists of approximately 4,400 miles of track. The state is served by four railroad companies. The Burlington Northern Railroad (BN) and the Soo Line Railroad (SOO) compete for rail freight business throughout most of the state. Recently, two up-start regional railroad companies, the Dakota, Minnesota and Eastern (DM&E) and the Red River Valley and Western (RRV&W) have begun operations in the State. They are operating track previously run by the Chicago and North Western and Burlington Northern Railroad Companies, respectively. See the Table 2 for a summary of mileages by company and by mainline/branchline classification.

TABLE 2.—STATE RAIL SYSTEM BY COMPANY AND MAINLINE/BRANCHLINE CLASSIFICATION

[In miles]

Company	Mainline	Branchline	Total
BN	1,050	1,350	2,400
SOO	350	900	1,250
DM&E	0	14	14
RRV&W	50	600	650
SD RAIL [1]	100	0	100
Total	1,550	2,864	4,414

[1] Owned by the State of South Dakota. Currently operated by the Burlington Northern. Consists of the former Milwaukee mainline trackage which runs through southwest North Dakota.

Source: North Dakota State Highway Department.

North Dakota has 1,550 miles of excellent mainline trackage. The Burlington Northern lines from Beach to Fargo and Williston to Fargo are among the best tracks anywhere. These lines handle over 20 trains per day at speeds over 50 miles per hour. Mainline trackage from Fargo north to Grand Forks and west to Minot is in equally good condition as it is the route of AMTRAK's Empire Builder passenger train. Speeds on this line range as high as 79 m.p.h. The Soo Line also operates a mainline route which serves as its western connection between the Soo System and its parent organization, the Canadian Pacific. With the exception of Grafton, all larger North Dakota cities are served by at least one mainline track.

The secondary arteries of the state's rail network consists of 2850 miles of branchlines (all lines not classified as mainlines). These are the lines that provide rail access to the many smaller communities and support the state's agricultural economy by gathering grain and oilseed products for delivery to mainline routes. These are also the lines, that for the most part, are in the poorest condition, are most subject to abandonment and have the most potential for development of short line railroad systems. The branchlines are also the focus of Local Rail Service Assistance.

RAILROAD ABANDONMENTS

The U.S. Department of Transportation announced, in a 1976 report, that over half of North Dakota's rail system was considered too light density (meaning they carried too little traffic) for viable operations and were likely to be abandoned. Had this occurred, North Dakota's rail network would have been reduced to about 2,500 miles.

All Milwaukee Road lines were abandoned shortly after that company declared bankruptcy. In June, 1981, the Burlington Northern Railroad Company announced that over 1200 miles of track in North Dakota was being considered for abandonment.

It appeared that the DOT prophecy was quickly coming to fruition. The abandonment actions brought about great hue and cry throughout the state about the disaster about to be wrought on North Dakota shippers and communities. The North Dakota Grain Dealers Association along with all North Dakota Farm Organizations initiated a statewide anti-abandonment campaign. Almost all state elected officials announced it as their policy to oppose all abandonments.

BN officials later adopted a more conciliatory attitude. The status of many of the lines were reviewed and changed. In addition, the BN committed to the rehabilitation and modernization of over 800 miles of North Dakota track at a cost of $15 million. Lastly, many of the miles of track identified for abandonment were removed from the list with the announcement by the BN that market forces, not BN directives would be allowed to shape the future of North Dakota's rail system.

Regardless of the announcements or stated intentions, abandonments of branchline trackage has proceeded at a rather rapid pace. Over 700 miles of North Dakota track have been abandoned since 1980. (See Table 3) A total of 30 line segments have been abandoned resulting in a loss of rail service to 52 communities and 3 counties.

TABLE 3.—RAIL LINE ABANDONMENTS BY YEAR AND COMPANY

[In miles]

	Burlington Northern	SOO Line	Milwaukee	Total
Year:				
1980	47		105	152
1981	34			34
1982	37	9	124	170
1983	56			56
1984	106	20		126
1985	24			24
1986	99	22		121
1987		17		17
Total	403	68	229	700

Source: North Dakota Public Service Commission.

The BN and SOO have recently announced intentions to abandon additional line segments totalling approximately 200 miles of North Dakota trackage. The North Dakota State Highway Department, in preparing an assessment of North Dakota rail transportation needs to the year 2020, considers 1800 miles of track, including the 200 miles identified by the railroads, as being in danger of being abandoned. It is interesting that this estimate added to the 700 miles of track already abandoned, approximates the estimate developed by the U.S. Department of Transportation in 1976. The branch line abandonment issue has dominated public railroad policy discussions in North Dakota for several years.

The possible loss of these branchlines would be disastrous for the small communities served, the agricultural industry and our rural way of life. Unfortunately, the disruption wouldn't even result in a cost savings. It only shifts the burden to the public sector for road construction and maintenance. The Highway Department 2020 Report concludes that it is more cost effective to fix the branchlines.

REGIONAL RAILROADS IN NORTH DAKOTA

Two regional railroads provide service in North Dakota. The first, formed in September, 1986, is the Dakota, Minnesota and Eastern Railroad (DM&E). It consists of 965 miles of track purchased from the Chicago and North Western Railroad. The DM&E serves Minnesota and South Dakota primarily, with short branch lines leading into Iowa and North Dakota. It has 14 miles of track in North Dakota and serves shippers at Oakes and Ludden, North Dakota.

The most recent regional railroad to begin operations in North Dakota is the Red River Valley and Western (RRV&W). Headquartered at Wahpeton, North Dakota, it operates exclusively in North Dakota, with the exception of the Breckenridge yard facilities located just across the state line in Minnesota. The RRV&W operates over 650 miles of North Dakota trackage and serves one of North Dakota's most intensive agricultural production areas and many large shippers.

The regional railroads, if created prior to the time the track is totally run down and all business diverted, seem a viable possibility for North Dakota. These larger shortline rail systems may serve as an alternative to the devastating business and service declines that have resulted in many branchline abandonments. North Dakota's experience to date with regional railroads has been positive.

These railroads though operate some of the poorest track in North Dakota with the lightest shipments. They are heavily dependent on the local agricultural economy and they suffer the same start-up problems of any new company. While these companies show great potential for providing viable rail service on light density branchlines in rural areas, the creation of these companies increases the risks of short and long term service disruptions to the communities and shippers served.

THE NEED FOR CONTINUED FEDERAL INVOLVEMENT

There are several reasons, philosophical and practical for maintaining a viable, albeit limited, federal program in local railroad planning and programming. The first reason is that railroad service is a matter of national concern. Each mile of track, no matter how remote, is connected to a system of trackage that extends nationwide. Under the Interstate Commerce Act, the federal government alone retains jurisdiction for almost all public policy decisions concerning railroad affairs. In the private arena, most decisions of importance concerning the railroad network are made by multi-state corporations that may or may not reflect the local needs of communities and shippers impacted by those decisions. It is reasonable therefore that a mechanism be put in place that assists states to deal both reactively and proactively with forces that impact the local transportation systems.

Second, a need exists for coordinating state and local rail policies. Local Rail Service Assistance provides both a communication network and the structure through which concerns and ideas can be discussed and acted upon. Without some common program, it is unlikely that states would continue to interact among themselves and with the federal government in any kind of consistent and coordinated basis. In fact, it is likely that a good number of states would discontinue all rail planning and programming efforts. Serious program cutbacks are already taking place in a number of states due to the low level and uncertainty of federal participation.

Third, many states, North Dakota is one, just do not have the resources to commit to a significant state funded rail program. Serious needs which affect the local communities and ultimately the entirety of the railroad system will just go unmet. These unmet needs will result in increased local road maintenance and construction costs and increased shipping costs. They will also result in further deterioration of our small towns, our agricultural economy and rural way of life.

CONCLUSION

Local Rail Service Assistance has been a highly successful and useful state/federal program. Few programs have had similar successes in leveraging so few dollars in the achievement of so many benefits. For states like North Dakota that are so highly dependent on rail services and which have limited means, due to regional and industry economic problems, the continuation of Local Rail Service Assistance is essential. We urge favorable action to continue this program.

Senator EXON. Thank you very much, Mr. Evans, and Mr. Eckhoff, I am pleased to recognize you.

Now, like your counterparts on this panel, your written statement has already been accepted.

I thought I knew Iowa reasonably well. I do not know where Steamboat Rock in Iowa is.

Could you help me out geographically? Is that on a mainline of the Union Pacific?

STATEMENT OF PAUL ECKHOFF, IOWA RAIL USERS' ASSOCIATION

Mr. ECKHOFF. You have plenty of company, not knowing where Steamboat Rock is at. It is located 40 miles due west of Waterloo, IA, and we are on the Chicago Northwestern Line.

Senator EXON. Thank you.

Mr. ECKHOFF. Mr. Chairman, on behalf of Iowa and the rail users of Iowa, we would like to thank you for an opportunity to have some input into the legislation involving the reauthorization of the Local Rail Service Assistance Program.

The Iowa Rail Users Association is an association of associations. We are comprised of 12 rail shipper groups within the state which actually represent about 1450 miles of branch line and short lie rail system, in other words, Category II and Category III systems.

Our purpose is simple, to help preserve a viable rail system within our State.

Much has been said in Iowa and throughout the nation about the concept of rural economic development. However, all too often, one of the key elements surrounding rural economic development is not addressed, and that is transportation. The need to move product in and out of rural America is central to rural economic development.

Recently, in fact, in 1987, the Iowa DOT was petitioned by our group to put together an economic impact study in the event that the branch line system in Iowa was either lost or deteriorated to the point that service was not acceptable. Here is what the findings were.

First of all, the branch line, short line system within Iowa generates about 80 percent of the rail originated grain within the state. Second, in the event that system is lost or deteriorated to the point that service is impeded, the cost to the producer will be 3 to 13 cents per bushel. This does not take into account the loss to the industry.

If you ever want to go through devaluation, own an elevator sometime on a rail line and have the rail line disappear.

The total economic impact, based on a conservative 5 cents per bushel, to the State of Iowa, would be $165 million.

1986 data shows that 77,000 cars were either terminated or originated on the Class II, Class III system. If that amount of tonnage was asked to be put on semis, that would amount to 308,000 semi loads of product. Quite frankly, the State of Iowa's overburdened highway system could not support that amount of traffic.

The need for reauthorization of the LRSA Program is real, Mr. Chairman. Since 1978, it has been a true success story for the State of Iowa. As Senator Harkin referred to earlier, funding amounting to about $25 million of Federal funds have given us almost $100 million of project funds in the State of Iowa which, by the way, has shown some very positive things.

First of all, every mile of track rehabilitated with Federal funds is now in operation today. Second, in every case, those tracks rehabilitated by Federal funds have shown an increase in car loadings.

The LRSA Program definitely provides a good mix of Federal Government, State loan, and shipper funds. However, the future need for huge pools of capital are real. A recent study done by the DOT shows that the average net liquidation value of rail lines in Iowa would amount to $40,700 per mile in the event they had to be procured. On top of that, the average rehabilitation cost to get those lines to Class I standard would be a minimum of $82,000 per mile in the event no new rail was needed, upward to $146,000 per mile in the event new rail had to be used.

Current projections show that 1,200 miles of track in Iowa would be subject to rehabilitation and/or procurement in the very near future. The time clock, however, is ticking; 244 miles of track in Iowa are now what they call Category 1 status, which means they can be subject to abandonment at any time. The problem is those few hundred mile actually affect almost 1,000 miles of branch line system due to the segmentation theory of rail abandonment.

Congress needs to act, and act now. The administration needs to recognize that if track is torn up, it is never replaced.

Thank you for this opportunity to touch upon what we feel are some important issues in the rural economic development of Iowa.

[The statement of follows:]

STATEMENT OF PAUL ECKHOFF, PRESIDENT, GREENBELT ELEVATOR CO.

Mr. Chairman, my name is Paul Eckhoff, President of the Greenbelt Elevator Co. with plant locations at Steamboat Rock and Eldora, Iowa. I am also president of the Iowa Rail Users Association which is comprised of 12 different rail shipper groups within the state of Iowa. The railroad trackage involved in our association amounts to over 1,450 miles, virtually all of it being branchline systems. I am here today representing that group.

Our purpose as an association is simple. The preservation of a viable rail system within our state. As shippers in our respective communities, we are in constant contact with rural America and its efforts to pull itself out of the depths of an economic depression. The news media, economists, and politicians continually remind us of the theme of "Rural Economic Development" and how important it is for our country to revive Rural America. What is so often overlooked is that transportation (the ability to move product in and out of rural America) is the mechanism that needs to be protected and enhanced if we are ever to achieve the benefit of economic development in rural areas. That is why I am speaking to you today. Congress and the administration have the ability to help protect and enhance that transportation system through the reauthorization of the Local Rail Service Assistance Program.

Since 1978 the success story of the LSRA program has been phenomenal in Iowa. About $25 million has been used to leverage $70 million in project work for our state. All the branchline track rehabilitated with federal funds is currently in service in Iowa. In all cases, after the rehabilitation work was completed, car loadings rose dramatically due to the efficiencies of rail.

Recent years (1983–86) have shown a significant decrease in attempts to abandon rail and the need for rehab, due to the Class I rail systems desire to decrease abandonment activity and reduced car loadings due to government storage and set-aside programs. This scene however is changing dramatically.

C.N.W., the state's largest Class I carrier, has publicly announced its desire to divest itself of all low-density lines and pare its systems down to an eventual core system through Iowa. The Soo line and the Chicago Central Pacific (old ICG line) are quite uncertain as to their future and what may happen in ownership changes on their respective lines. The probable changes in ownership causes the state and its shipping community much concern. Under Iowa D.O.T. projections for Net Liquidation Value and rehabilitation costs on the branchline system of Iowa, enormous pools of capital will be required to retain viability to the state's branchline system, which by the way, originates 80% of the states rail originated grain. A new D.O.T. N.L.V. average estimate of $40,700.00 per mile and rehabilitation cost up to a Class I standard is $146,000.00 per mile (with new rail) or $82,000.00 per mile (without rail replacement).

In the past the LRSA program has provided a needed mix of Federal grant, low cost state loan, and shipper funds in order to rehab and or procure lines as they were abandoned or put up for sale. This program needs to be re-authorized and most importantly expanded to provide the balanced mixture of funding needed. There is no way that private high cost monies can be used to create a viable shipper owned regional or shortline system and in most cases the shippers will be the eventual new owners.

The shippers know the true needs of the state's transportation system. We know what service is needed, what markets must be accessed, and what modes will bring with it the most efficiency. Some examples of these needs are as follows:

(1) 1986 data reveals that in Iowa alone 77,000 cars of grain originated on the Class II rail system. This includes branchline and shoreline operations. To move this equivalent amount of grain by truck would require 308,000 additional semi-loads adding undue pressures to an already overburdened secondary, primary, and interstate highway system.

(2) Loss of rail means loss of markets. The ability of rail to transport grain from the upper midwest to the gulf and Pacific Northwest export markets is a *must* to our nations food producer. Sub-zero temperatures are not conducive for water transportation which is the only other effective way of accessing export markets, which by the way, is now our fastest growing grain market. To deny rail access to the producer puts him at the mercy of a processor only market, and I believe we all know what lack of competition means to the market place.

(3) The Class I system needs the ability of the branchline system to gather grain to eventually be hauled by the Class I carrier. A misconception is that the grain will go by truck to the Class I line no matter if the branchline system survives or not. That simply is not true. Once the grain is on rubber wheels it will stay on rubber wheels until it reaches a processor or river market. The Class I carrier does not have enough freight advantage to offset the additional elevation and handling cost associated with truck to rail transfer. The real efficiency is to put it on steel wheels and leave it there until final destination.

(4) We are now exiting a grain storage era and entering a grain marketing era due to a shift in government policy. A welcome change, but in order to merchandise, one must be able to access markets and to access markets requires a viable transportation system. We have an opportunity to perserve what viability is left if we so choose.

One of the highlites thus far in the I.R.U.A.'s efforts has been its ability to have the Iowa D.O.T. do an economic impact study of what would happen if the branchline system was lost or dramatically pared down. The results of that study showed a range of .03–.13 per bushel cost to the *producer* in the event the branchline system is tampered with. Eighty percent of the branchline system is located in the Northwest/Northcentral 40% of the state. The economic impact for this segment of Mid-America based on a conservative .05 per bushel figure, amounts to $165,000,000.00.

We speak of rural economic development and it is a laudable, achievable goal. However, priorities must be established to achieve that goal and rail transportation must rank at the top. Our fragile economic system is influenced by enough variables we can't control such as weather, world political activities, and change in diets that we must act diligently in those areas we can affect. Our rural communities need rail. Rail needs the funding available to address rehab and procurement costs. We solicit Congress to support rural America in a way that will cause it to continue to produce low cost high quality food for our country along with supporting a "real" Rural Economic Development program that actually grants a return on its investment.

Unfortunately, if the federal government is to be involved, it must act quickly. In Iowa alone 240 miles of branchline system is currently in Category I status, meaning it could be subject to abandonment at any time. Unfortunately, that 300 miles affects about 800–1,000 miles of branchline system due to the branchline segmentation theory of abandonment. The ability to act will be limited to the amount of low cost funding available. A fact of life is once rail is abandoned and tore up, it is never replaced.

On behalf of the Iowa Rail Users Association, I thank you for this opportunity to discuss rail issues. We urge the reauthorization of a federal program destined to help such an important segment of our economy.

Senator EXON. Thank you very much, Mr. Eckhoff.

I have a few questions that I would like to ask the panel.

We started out today, as you know, by opponents to this, and we are giving also liberal time to those of you who share the majority view of the subcommittee that this program should be continued. But we want to make a fair and objective case because that is the only way we can defend this in the committee as a whole, the Commerce Committee, and on the floor of the Senate.

Let me ask this question, and I will ask any of you who care to respond.

From your statements, you seem to leave no doubt that you believe that this program is an effective one and is indeed meeting its objectives. We have heard a number of examples of success stories.

Now, let me ask you this question. Have there been any instances—and I suspect that there have been some. No program is perfect, but have there been any instances where the investment went for naught?

Does the program provide an inherent weeding out process that helps ensure the success of the project?

Mr. EVANS. Senator Exon, on behalf of North Dakota, none of the funds that have been utilized for any projects in North Dakota have gone for naught. All miles of track that have been rehabilitated, all projects which are completed are in use and functioning and fulfilling North Dakota's needs.

Our only problem has been waiting long enough to accumulate enough funds to do something.

Mr. RANDALL. I would echo Mr. Evans' remark. That is also the case in South Dakota. And I would also point out that there is an application process that we must go through to obtain, or attempt to obtain, these dollars.

And as part of that, we perform fairly detailed benefit cost analyses. That was one of the things that the planning part of this program supported. So the program itself does have some protective covenants, if you will, or protective measures, to ensure that we invest in the project that has the very highest likelihood of success.

Mr. EDWARDS. I would just comment, Mr. Chairman, that the very mechanics which have been set up in order to provide any assistance would, in fact, make it extremely unlikely that one could find any failures in it.

The resources are so limited, the appraisal and evaluation is so rigorous, the cost-benefit analysis portion of it, that it would be relatively impossible for any of them to fail, because there is always a lineup, a queue, waiting for the very limited funds. We know of none, at least in AAHTO, at all in any of the States.

Mr. ECKHOFF. From the standpoint of a shipper, and going through a recent feasibility study by the DOT on our particular line, the criteria they use in their feasibility study dictates success.

Senator EXON. Well, we have established a record. This is the first perfect Federal program that has ever been enacted. And there are people who say there is no such thing, and we have proof positive that that is possible.

I assume that maybe you would have some failures. And since you do not know of any, that might be all good. On the other hand, my experience has been, when you never have any failures maybe the program is so tight, and it is so examined that there are no failures.

And maybe that is good, or maybe it indicates that the program should be loosened a little bit to take a few more chances from time to time, if we are going to enhance the economic security of rural America.

I just have one last question, and after the answer to that, if any of you have any last comments that you would like to add please feel free to do so, because we have very much appreciated your

taking the time and effort to come long distances to testify in front of our subcommittee.

I thank you for coming, and I tell you that it is worthwhile, because we need to build a case. Any time we have the administration zeroing out a program, it is not the easiest thing to put that through the Congress.

We did it with the essential air service program, and we have done it with other programs. And I think we can do it with this one. But your testimony and that to come has been very helpful.

I guess primarily I would ask you this question, Mr. Eckhoff, because you are with the Rail Users Association. But if any of the other members of the panel care to comment, why I would certainly appreciate them speaking up.

Mr. Eckhoff, you are familiar with instances where communities have lost their rail service. In written testimony by Mr. Evans, he has cited 52 such instances since 1980 in North Dakota alone.

What have proven to be the effects of lost rail service on these communities that have been so affected? How many of these would you consider could have been prevented, had additional LRSA funds been available and more easily attained?

Mr. ECKHOFF. An exact number, I guess, I could not come up with at the current time. However, in the case of Iowa, if the Rock Island system alone could have been saved, with either LRSA money or some type of funding of that nature, a large number of grain shipping facilities would now be in operation today that are not currently in operation.

Those that are still in operation operate at a disadvantage. An example would be, we currently have two neighboring towns who were serviced by the Rock Island Railroad originally.

They lost their rail service. Their producers today are paying 6 cents per bushel more to get grain to the same market that we are getting grain to.

Senator EXON. Speaking from experience, that six cents could be the difference between losing money and making some money on a particular crop, with the thin margin that we have in the market today.

Do any of the rest of you have any comments, particularly that would be helpful on the question that I asked Mr. Eckhoff?

I refer to your stats, Mr. Evans, which we thought were very interesting. Do you or Mr. Randall or Mr. Edwards have anything further to say in this area?

Mr. EVANS. Mr. Chairman, certainly a great number of those communities would still be functioning and thriving and providing the core services to agriculture economy that would be needed, if they continue to have rail service.

It is our experience that once this rail service is gone the elevators begin to be taken out of their function of providing marketing for the grain, and the community deteriorates.

And it is, as I have stated before, it is a long process of degradation. It is hard to pinpoint any one specific thing that happens.

Senator EXON. Mr. Randall.

Mr. RANDALL. I would just make the comment, Mr. Chairman, that perhaps when we talk about the failures of this program we could also think about them in the context of lines that could have

been saved through this program but were not because of the limited funding that was available. That is a true loss to our economy, and to our shippers.

Senator EXON. Thank you. If there is nothing further, I thank you once again for all being here, and appreciate your testimony.

Thank you very much, gentlemen. You are excused.

The final panel today is Mr. Mike Barron, the chairman of the Infrastructure Committee of the Regional Railroads of America, Mr. Joe Stecher from Fremont, NE, with the West Point & Pacific Railroad Co., in Hooper, Mr. Larry Wood, president of the Minnesota Valley Transportation Co., Redwood Falls, MN, and Mr. James Kennedy, executive secretary-treasurer of the Railway Labor Executive Association.

Gentlemen, if you would please come forward and take your seats, we start out by thanking each and every one of you for having sufficient interest in this very important program to come in today to give us testimony.

As with the previous panel, I would indicate to you that when you finish there will be some questions. We may have additional questions for the record that we would mail to you. And if so, please respond as promptly as possible so that we can get them included in the official record.

I would also remind you that the statements that you have prepared have been good ones. We accept them into the record at this time without objection in their entirety, and we would ask each of you to summarize those statements at this particular time. And we will start with Mr. Mike Barron.

STATEMENT OF MICHAEL BARRON, CHAIRMAN, INFRASTRUCTURE COMMITTEE, REGIONAL RAILROADS OF AMERICA; ACCOMPANIED BY RAY CHAMBERS, CHAIRMAN, RBC ASSOCIATES

Mr. BARRON. Mr. Chairman, thank you very much for allowing us the opportunity to appear. I will, with your permission, summarize my remarks.

I am chief executive of a small railroad that serves the States of Michigan and Ohio. We are not generally thought of as part of rural America, but I have to say to you, with the amount of light density lines that we have, or that we suffer with in those States, I think that makes us a partner in your problems of rural America.

I am the chief executive officer of Ann Arbor Railroad. I am also chairman of the Infrastructure Committee of Regional Railroads of America. And I am here today representing RRA. With me is Ray Chambers, chairman of RBC Associates, a Washington-based consulting firm specializing in rail matters.

The subject of this hearing concerns a decision by Congress on whether or not to extend the Local Rail Service Assistance Program. RRA strongly supports the continuation of LRSA as part of the national effort to preserve and enhance rail service.

We believe that both equity and the national interests require a limited but continuing Federal financial role in the rehabilitation of America's railroads. The RRA represents a growing entrepreneurial spirit within the railroad industry. Our organization is composed of 77 members operating in 39 States.

As has been said earlier today, Class I railroads generally do not invest in loss operations. The extremely low volume of traffic on these branch lines cannot support an adequate level of maintenance, and they are then allowed to deteriorate. There is an enormous backlog of rehabilitation that must be addressed.

If this rehabilitation is not undertaken, much of America's rail system will deteriorate to the point that it cannot be competitive, and a great deal of traffic will be diverted from rail to the highways.

Because of the heavy nature of most rail traffic, more will be spent on highway maintenance as a result of such a diversion than would ever be expended on track and roadbed improvement.

We come to you today with three specific recommendations for action in this Congress. First, we support continuation of the Local Rail Service Assistance Program, and the Redeemable Preference Share Program administered by the Federal Railroad Administration.

Second, we request a renewed commitment to the Federal Loan Guaranty Program for revitalization of local and regional railroads.

Third, we ask that Congress end the continuing stalemate that currently exists over line sales because of conflicting court decisions.

Mr. Chairman, we understand that the purpose of this hearing is not to discuss line sales. However, the issues of sale, rehabilitation, and service preservation are all integrally related.

Therefore, RRA is taking this opportunity to ask the Senate Commerce Committee to take up legislation that would end the labor management deadlock that has put a halt to the rationalization of rail system through sales of light density lines.

Forbes magazine puts it well in a recent issue, and I will quote. "Capitol Hill legislation and Supreme Court decisions can be a long time in coming. However, time is not on the side of the railroads. While lawyers and legislators haggle, at least 15,000 miles of railroad could end up on the scrap heap."

These are real lines of railroad serving real communities throughout the United States and rural America.

Currently, the RRA is cooperating with FRA and major railroads in a survey of these lines that are potential candidates for transfer. We know there are hundreds of lines of vulnerable railroad in Nebraska, South Dakota, and Wisconsin, as well as other States across the country.

Senator Pressler has worked closely with RRA in the development of policies that promote regional railroading. In addition, you, Mr. Chairman, Senator Kasten and Senator Rockefeller, and other Members of this Committee, have shown real interest in regional and local railroading as an alternative to abandonment.

This is appreciated by the members of RRA, and we appeal to you to end the haggling between lawyers and bring about a prompt resolution of the line sale deadlock.

[The statement follows:]

STATEMENT OF MICHAEL J. BARRON, CHAIRMAN, INFRASTRUCTURE COMMITTEE, REGIONAL RAILROADS OF AMERICA

Mr. Chairman, I am Mike Barron. I serve as the Chief Executive Officer of the Ann Arbor Railroad which operates between Ann Arbor, Michigan, and Toledo, Ohio. I am also Chairman of the Infrastructure Committee of the Regional Railroads of America and I am here today representing the RRA. With me is Ray Chambers, Chairman of RBC Associates, Inc. a Washington-based consulting firm specializing in rail transportation matters.

The subject of this hearing concerns a decision by Congress on whether or not to extend the Local Rail Service Assistance Program. Regional Railroads of America strongly supports the continuation of LRSA as part of the national effort to preserve and enhance rail service.

We believe that both equity and the national interest require a limited but continuing federal financial role in the rehabilitation of America's railroads. First, I will discuss the policy considerations. I will then make three recommendations on behalf of RRA for implementing that policy.

The RRA represents a growing entrepreneurial spirit within the railroad industry. Our organization is composed of 77 members operating in 39 states. Since passage of the Staggers Act of 1980, large railroads have been able to sell, rather than abandon, marginal operations which they could not continue to support under Class I operating conditions. Since 1980, more than 16,000 miles have been transferred to 194 companies. The majority of these lines would have been abandoned had they not been sold. Literally hundreds of communities and thousands of shippers would have found themselves with no rail transportation. In the best cases, that would have meant fewer transportation alternatives and higher prices. In the worst cases, it could have resulted in the loss of entire industries within a community.

Thanks to enlightened federal policy in rebuilding Conrail and the impact of the Staggers Act on major carriers, the Class I railroad industry is generally in good physical shape. Unfortunately, the same general statement cannot be made about the Class II and Class III carriers, and particularly those lines that have recently been sold by the Class I's. The extremely low volume of traffic on these branch lines could not support an adequate level of maintenance, and they were allowed to deteriorate.

So, while post Staggers economics makes it possible for money-losing branch lines of the Class I's to be marginally profitable as separate entities, there is an enormous backlog of rehabilitation that must be addressed. If this rehabilitation is not undertaken, much of America's rail system will deteriorate to the point that it cannot be competitive and a great deal of

traffic will diverted from rail to the highways. Because of the heavy nature of most rail traffic, more will be spent on highway maintenance as a result of such a diversion than would ever be expended on track and roadbed improvement.

During the 1950's and 1960's, America made an enormous investment in building transportation infrastructure. The commitment was uneven as between the modes and little was planned to support maintenance of the system. Deterioration is increasing exponentially. America requires a new commitment. This time however our railroad system must be a part of that commitment.

On Wednesday, May 18, Congressman Sherwood Boehlert of New York testified before the House Public Works Subcommittee on Economic Development. He stated that railroads should be a part of the infrastructure deliberations of Congress. His concluding paragraphs are worth repeating here:

> "There is no question but that the federal investment in highway infrastructure has had a major impact on American railroading. Further, there is a substantial subsidy to the competing modes. Cost allocation studies at both the state and federal level show a pattern of underpayment by heavy trucks. According to the Federal Highway Cost Allocation Study, conducted by the U.S. Department of Transportation's Federal Highway Administration, the heaviest trucks pay only 65% of their highway cost responsibility.
>
> "I believe it can be argued that the national railroad network is as vital to the public interest as is the federal highway network. I would assert that freight transportation by rail achieves benefits that are equal to or better than truck freight transportation including minimizing environmental damage and ensuring better and safer highways for the automobile passenger. So we are at a crossroads: We must decide if it's right to subsidize one transportation network at the expense of the other. I hope you will decide we can address both issues."

RRA believes that the time is here to take a modest step toward a federal policy that promotes the growth and revitalization of local and regional railroading as an essential element of America's transportation policy.

We come to you today with three specific recommendations for action in this Congress. First, we support continuation of the Local Rail Service Assistance Program and the Redeemable Preference Share Program administered by the Federal Railroad Administration. Second, we request a renewed commitment to the Federal Loan Guarantee Program for revitalization of local and regional railroads. Third, we ask that Congress end the continuing stalemate that currently exists over line sales because of conflicting court decisions.

LRSA PROPOSAL

For the policy reasons I have just stated, the RRA together with the Local Railroad Coalition and the Conference of State Rail Transportation Officials request an extension of LRSA. We worked closely with Senators Harkin, Pressler and Rockefeller in developing a consensus bill, S. 2195, which authorizes Local Rail Service Assistance through fiscal year 1991 at a level not to exceed $35 million per year. In addition, we are familiar with Senator Burdick's bill, S. 2174, which is similar and believe it also has merit.

In addition to LRSA, FRA administers two programs providing repayable financing for railroads and others under Title V of the Railroad Revitalization and Regulatory Reform Act of 1976. Section 505 provides direct loans with interest rates ranging from 3.24% to the cost of money to government.

We believe there is a role for low-cost repayable financing as well as the LRSA Grant program and would ask that this program also be extended into the next fiscal year as an interim measure. As you know, the FRA is currently conducting a study of deferred maintenance and delayed capital improvements on Class II and Class III railroads as required by the Boehlert-D'Amato proposal contained in last year's Budget Reconciliation Act. We expect this data to be available by early next year. It will be appropriate for a full-scale review of the need, if any, for federal financing as a part of a federal infrastructure commitment.

FEDERAL LOAN GUARANTEES

Section 511 authorizes loan guarantees to enable an applicant to acquire, to rehabilitate and improve facilities. Interest rates for the section 511 loan guarantees are comparable to commercial lending rates. The required findings for a guarantee under section 511 relate primarily to the need for rail service, the economic worth of the proposed project and the repayability of the obligation or the security offered for the financing.

There is no statutory expiration date for the 511 Guarantees. Unless Congress ends the program by an affirmative act, it will remain on the books. However, commitments to guarantee new loans are subject to various limitations. The program was originally authorized at a level of $1 billion. Several years ago, the Appropriations Committees established a 511 loan ceiling at $600 million. FRA signed $271 million in loan guarantee payments. However, because of loan buybacks and repayments there is, we understand, only $54 million dollars obligated against the $600 million appropriation authority.

As already indicated, there is substantial deferred maintenance on the Class II and III carriers. Because the financial packages used to purchase these lines can generally only support the purchase price, funding for rehabilitation is delayed. By putting off this much needed repair, the railroads become trapped in a vicious circle. The deteriorating line requires higher and higher operating expenses so the railroad has less and less cash available for repairs. Left unrehabilitated, the line deteriorates even further, putting additional pressure on expenses.

RRA believes that there is a substantial and possibly one-time need for right-of-way upgrading on regional and local railroads. RRA therefore proposes that the 511 Loan Guarantee Program be reactivated, made workable and applied to Class II and Class III rehabilitation and acquisition/rehabilitation packages. The Railroad Productivity Foundation, recently formed by RRA, is about to survey regional and local railroads as to how the 511 Loan Guarantee Program could be made workable and effective. We expect to have the results of that survey compiled by July 15, and will be pleased to forward the results to you.

LABOR PROTECTION

Mr. Chairman, we understand that the purpose of this hearing is not to discuss line sales. However, the issues of sale, rehabilitation and service preservation are integrally related. Therefore, RRA is taking this opportunity to ask the Senate Commerce Committee to take up legislation that would end the deadlock that has put a halt to rationalization of the rail system through sales of light density lines.

Prior to 1980, railroads had little flexibility to sell, consolidate, or merge facilities. Except for mega-mergers, the only practical restructuring alternative was abandonment. One of the benefits of post-Staggers deregulation was a new potential to head off abandonment by selling marginal lines to new companies. These new companies have been able to develop new rail customers at the local level. They have been able to negotiate productive working agreements with their employees. The jobs they produce are good ones. An RRA survey found that

nearly 70 percent of the new carriers have more employees today than they did during the first month of operation. While salary scales are somewhat below Class I levels, our survey showed that wages average 44 percent higher than state-wide wages for all industries served in the state. More than half of these carriers are unionized and more than half have employee profit sharing programs where the benefits of increased productivity are shared. Certainly these railroads employ more people and serve more shippers than they would if abandoned.

Today, these line sales are caught in a cross-fire between management and labor on the question of whether labor protection should be paid to adversely affected employees of the selling carrier and whether the terms and conditions of a sale must be negotiated through the cumbersome procedures of the Railway Labor Act.

In Congress, rail labor is pressing for enactment of HR 3332, the Walgren Bill, which would grant up to $30,000 of labor protection to any employee harmed by the sale and it would require that the RLA procedures, complete with strike power, would have to be completed before a sale could take place. RRA argues that railroads should receive equal treatment under the law and that labor protection requirements should be no greater than those imposed on our trucking and barge competitors for similar transactions. We oppose the Walgren Bill. Our strongest objection to Walgren is that the right to strike over an asset sale combined with intermitable RLA procedures will certainly be used as a weapon by labor to kill all line sales.

The courts have further confused the issue. Following a series of court victories by rail management which allowed line sales to go forward to new carriers, labor won a major victory in the Third Circuit. That court has ruled that labor has a right to strike over sales and that the RLA procedures must be followed to conclusion before a sale can be completed. RRA's position that such power would be used to veto line sales has been confirmed. There have been no sales since the first P&LE decisions last Fall. It is our understanding that labor has informally threatened to strike any carrier that completes a sale.

The P&LE cases are by no means the last word on this issue. Various cases are pending all over the United States. In March, the District Court in the Northern District of Illinois ruled that C&NW could close on a major line sale in Wisconsin and granted a motion enjoining a strike. C&NW is awaiting a final decision by the Seventh Circuit on the District Court ruling before proceeding with their sale.

The complex issues are not likely to be resolved by the Supreme Court for well over a year, creating continued

gridlock. Only Congress can solve the problem. Even the Third Circuit recognized that they were not engaged in good policy. Their decision actually stated: "...imposing the RLA requirements in this situation may well have the practical effect of torpedoing the sale. ...We would like to hold that the cumbersome procedures of the RLA are inapplicable here. ...The RLA is expressely designed to delay certain management decisions in order to give rail labor more leverage. ...A prolonged delay, enforced by the imposition of the purposely long and drawn out bargaining procedures of the RLA...could effectively kill the proposed transaction and ultimately push the railroad into a bankruptcy proceeding. ...We in fact recognize that such a result could well be contrary to the strong Congressional policy in favor of rehabilitating the railroad industry. This conflict, however, is a consequence of the fact that Congress has not updated an old statute (the RLA) to keep it in tune with newer policies."

The Third Circuit then comes to the firm conclusion that our pleas "are more appropriately directed to Congress." Unfortunately, we must agree with the Third Circuit on this one point.

Congressman Tom Tauke of Iowa has made a major effort to break the deadlock by introducing a Bill, HR 4261, that would grant selling railroad employees a separation allowance of up to $30,000 while establishing that there is a clear Interstate Commerce Act process that will allow line sales to go forward on a timely basis and free from the threat of a strike. The RRA has abandoned its position of opposition to labor protection and, in the spirit of compromise, we support the Tauke Bill.

Forbes magazine put it well in their most recent issue: "Capitol Hill legislation and Supreme Court decisions can be a long time in coming, however, and time is not on the side of the railroads. While the lawyers and legislators haggle, at least 15,000 miles of railroad could end up on the scrap heap." It would be a tragedy to allow this deadlock to continue over what is essentially a minor haggle between management and labor in the context of the larger national interest. These are real lines of railroad serving real communities throughout the United States. Currently, the RRA is cooperating with the FRA and major railroads in a survey of lines that are potential candidates for transfer. We know that there are hundreds of miles of vulnerable lines in Nebraska, South Dakota and Wisconsin as well as other states across the country. Senator Pressler has worked closely with the RRA in the development of policies that promote regional railroading. In addition, you, Senator Kasten, Senator Rockefeller and other members of this committee have shown real interest in regional and local railroading as an alternative to abandonment. This is very much appreciated by the members of RRA. We appeal to you to end the haggling between lawyers and bring about a prompt resolution to the line sale deadlock.
Thank you.

Senator EXON. Mr. Barron, thank you very much for your expert testimony.

I guess we would go next to my friend and fellow constituent from Hooper, Nebraska, Mr. Joe Stecher. And Joe has been one of those entrepreneurs who has shown the way of all entrepreneurs. And we are delighted that you came here to testify this morning.

STATEMENT OF JOE STECHER, BOARD MEMBER, FREMONT, WEST POINT & PACIFIC RAILROAD

Mr. STECHER. Thank you, Mr. Chairman. Let me first say thank you for the invitation, the opportunity to be here.

I am here as secretary of the Fremont, West Point & Pacific Railroad. The Fremont, West Point and Pacific is a unique enterprise in that it is wholly owned by a nonprofit organization, the Eastern Nebraska Chapter of the National Railway Historical Society. The tracks that we operate on are also wholly owned by the Eastern Nebraska chapter of the National Railway Historical Society.

In the spring of 1984, the rail line between Fremont and North Fork, NE, operated by the Chicago Northwestern Railroad, was severely damaged in flooding. At that time operations on that railroad were ceased by the CN&W.

Shortly thereafter, the Eastern Nebraska Chapter of the National Railway Historical Society was able to accomplish a contract to purchase the rail line between Fremont and North Fork, and hopefully to keep it in service eventually.

To make a long story short, money was raised and the purchase of the line from Fremont to West Point was concluded. The line between West Point and North Fork has been abandoned, it has been torn up, it has been salvaged by CN&W.

Rail service to Wisner, Beemer, and Pilger, NE, is gone forever. It is history and will never be reestablished. Rail service to North Fork has been greatly reduced because of the loss of that line.

In August 1987, when the purchase from Hooper to West Point was completed, over $200,000 was raised by the citizens and businesses of the Scribner and West Point area for this purchase.

I think that is glowing testimony to the need and to the interest that there is for rail service in the community. The progressive citizens and farmers and businesses of that area clearly see rail service as an economic benefit, not only to their existing businesses, but also to attracting new businesses to the area which simply must have rail service to even consider location in a small community.

In October 1987, the Fremont, West Point & Pacific Railroad started providing rail service for the first time to Hooper, NE, since the floods of 1984. Since that time, we have carried 187 carloads of grain out of Hooper.

This has given Hooper the opportunity, the farmers' co-op at Hooper, the opportunity of shipping and marketing grain, advantages, the advantages that can only be gained by rail transportation.

We would like to extend that service through Scribner and on up to West Point, NE. To do that, we have to revitalize that track. At

this point, the only way that is going to be done is if this Committee, and Congress, and the Senate, appropriates the funds for the programs for revitalization.

I do not want this to sound as if we are asking specifically for funds for our project. It is not. As my written testimony states, we are ready and willing and able to compete with all other rail interests for those funds.

This is how it has been done in the past. And as we have just heard, this is what has made this program such a successful program. However, we do exemplify what is going on in the rail industry.

Without funds, we will have to scrap the line between Hooper and West Point. There is no doubt of that. It is a tremendous asset for our small organization. We cannot leave it lie on the ground doing nothing.

If it cannot be put back into service, we are simply going to have to scrap it and sell it for our own economic well-being. We are a small company, and that asset has to be looked at in that way, if we cannot fit it back into service.

One other thing that scrapping that line will jeopardize, and that is the cargo that we have now established between Fremont and Hooper, NE. If we cannot also expand our service to Scribner and West Point, increase the number of cars we can carry, give the co-ops and the elevators in Scribner and West Point the opportunity to put together unit trains with Hooper, it simply may not be feasible to operate a cargo line simply between Hooper and Fremont, NE.

We therefore jeopardize the cargo service we have established, if we cannot extend it on through Scribner and West Point.

I am here simply to ask you to consider very carefully to work very hard for rail revitalization funds. Without it, the cities, small cities and communities of Nebraska and other parts of rural America will continue to lose rail service.

And that is a great economic deficit to the farmers and to the small industries that thrive in those communities, and that those communities need if they are going to thrive. Thank you very much.

[The statement follows:]

STATEMENT OF JOE STECHER, SECRETARY, FREMONT, WEST POINT & PACIFIC RAILROAD

HISTORY

In the spring of 1984 the Chicago and Northwestern Railroad line between Fremont and Norfolk, Nebraska suffered severe flood damage. As a result the Chicago and Northwestern ceased operations, which left a large portion of Eastern Nebraska without rail service. The Eastern Nebraska Chapter of the National Railway Historical Society (ENCNRHS) was successful in negotiating a purchase agreement with Chicago and Northwestern for the track and right of way between Fremont and Norfolk shortly after chicago and Northwestern halted operations. This purchase agreement set the stage for what followed.

As its name implies, ENCNRHS is a chapter of the National Railway Historical Society, a non-profit organization existing nation-wide since the 1930's dedicated to the preservation and promotion of railroading history and travel. ENCNRHS is a non-profit Nebraska corporation. ENCNRHS set out on the task of raising the enormous funds necessary to complete the above mentioned purchase. The purchase agreement granted ENCNRHS three options; (1) an option to purchase the line from Fremont to Norfolk, (2) an option to purchase the line from Fremont to West Point,

(3) an option to purchase the line from Fremont to Hooper. To make a long, but interesting story short, ENCNRHS was successful in raising the funds necessary to purchase the line between Fremont and Hooper and gained an extension on the option to purchase the line between Hooper and West Point.

The option to purchase the line between West Point and Norfolk was lost. That portion of track has been salvaged. The track has been removed and rail service to the cities of Beemer, Wisner, and Pilger, Nebraska is history. The removal of this line also significantly reduced rail service to Norfolk, Nebraska.

In the fall of 1985, the Fremont and Elkhorn Valley Railroad Company, Inc. (FEVR) was incorporated under the railroad corporation laws of the State of Nebraska. The statutes of Nebraska prohibit a non-profit corporation from providing rail service, therefore, FEVR was formed to conduct the business of rail operations. FEVR is wholly owned by ENCNRHS. Each member of the original Board of Directors of FEVR, personally guaranteed a loan of $150,000.000 to complete the abovementioned purchase of track and right of way between Fremont and Hooper, Nebraska. This was done with full knowledge that personal gain was not a possibility. It was done in a spirit of community enrichment.

Since July 4, 1986, FEVR has operated a tourist excursion between Fremont and Hooper. Over the past two seasons of operation FEVR has carried approximately 55,000 riders. This season's service started last weekend with our annual "school days" excursions which carried 3,520 passengers in a two-week period. FEVR Has been a significant economical benefit for Fremont, Hooper, and the surrounding area. Please see that attached letters from the Fremont Chamber of Commerce and the Dodge County Convention and Visitor's Bureau. In 1986 FEVR received Rookie of the Year Honors from the Nebraska Commission on Tourism.

In August 1987, ENCNRHS raised the funds necessary to complete the purchase of the line from Hooper to West Point. The funds were raised largely due to the interest and generosity of the people of the Scribner and West Point, Nebraska area.

In September 1987, the Fremont, West Point, and Pacific Railroad, Inc. (FWPP) was incorporated under the railroad corporation laws of Nebraska. FWPP is also wholly owned by ENCNRHS. FWPP was formed to conduct the business of providing freight service on the tracks owned by ENCNRHS. As with FEVR, any profits made by FWPP are paid as dividends to ENCNRHS. ENCNRHS will then apply the funds towards its stated purpose of preserving rail history and promoting rail transportation.

FREMONT, WEST POINT AND PACIFIC RAILROAD OPERATION AND FUTURE

Since incorporation in September of 1987, FWPP has hauled 187 rail cars of grain shipped from the Farmers Co-op Co., of Hooper, Nebraska. This of course, is the first freight service available to Hooper since the spring floods of 1984. FWPP would like to expand freight service to Scribner and West Point, Nebraska. To accomplish this, the track between Hooper and West Point must be repaired. The repairs are extensive. The estimates we have obtained range up to approximately $900,000.00. Most repair is concentrated in two major wash out areas. A majority of the track is in good condition needing only routine repairs and maintenance.

Our preliminary investigation shows that freight service between Fremont and West Point, Nebraska, serving Fremont, Nickerson, Hooper, Scribner, and West Point is viable and of economic importance to the community. For example, freight service to Hooper, Scribner, and West Point would create the ability of grain gathering businesses in those communities to more profitably market and ship commodities which will increase the prices they can pay farmers for their products. Please see the attached letters from Iowa Beef Packers, Grain States Soya, Inc. both of West Point, Scribner Grain and Lumber and Farmers Co-op Mercantile Company, both of Scribner, and two letters from Farmer's Co-op Co. of Hooper. We are in the process of obtaining a complete feasibility study from Wilbur Smith Associates which will enable us to make a sound decision as to whether or not freight service is worth the tremendous investment required. This study will be completed within three months.

The purpose of this testimony submitted today, is to establish the need for and propriety of Federal funds for rail revitalization. If such funding is not available, then rail service West of Hooper through Scribner and into West Point cannot be restored. The tracks between Hooper and West Point will be salvaged and rail service to two more Nebraska communities and their surrounding areas will be lost. Once the track is gone, it is gone forever. The iron rail itself is a very important

asset to our overall project. If freight service cannot be accomplished, we will be forced to salvage the rail for our own economic well being.

The availability of federal funds does not insure funding for revitalization of our track. We are prepared to compete with the other railroad interests for those funds. If their needs are more justifiable than ours, then that's where the funds should go. But, if federal funding is not available then not only will our tracks be salvaged, but miles of other rail service may be terminated and ultimately lost forever. We believe that rail service to rural Nebraska is an economical benefit to the farmers, shippers, and other citizens of our small rural communities. It is our hope that this Subcommittee will agree.

I wish to emphasize one thing in closing. Our rail project has taken on insurmountable task after insurmountable task and has succeeded. We have grown faster than anticipated and expanded into three distinct areas of service, tourist train excursion, dinner train, and cargo. All this has been accomplished without one cent of governmental assistance. We are successful because the people associated with the ENCNRHS, FEVR, and FWPP are dedicated. Every week volunteers put in countless hours to make the train run *and* boost the local economy. We have been and will continue to be a major economic benefit to our community. If cargo service can be realized for our entire line, we will make a tremendous economic impact on Eastern Nebraska.

We ask that you give rail revitalization funding serious consideration.

Senator EXON. Mr. Stecher, thank you very much. A question or two right now. The condition of your track between Fremont and Hooper, is it good, or does it need improvement, where are you on that?

Mr. STECHER. It needs improvement, as it always does. There is always routine maintenance. But the track is open. We have three distinct enterprises that are working on that track right now.

One is a tourist excursion line. We carry tourists with our steam engine between Hooper and Fremont, NE. And we have had 55,000 riders on that line over the last two summers, which has been a tremendous economic benefit for Hooper, NE, and Fremont also.

We also have dinner train operations that run on that line, so the line is in fairly good condition if it allows people to eat and drink while they are riding on the train.

Third, we do have the cargo service established between Hooper and Fremont, which has been a tremendous economic benefit for the farmers who do business with the co-op, allowing the co-op to market and ship their grain more profitably.

Senator EXON. I want to compliment you for your entrepreneurship in this area.

I have had a lot of favorable comments from my constituents about the tourism train that you run up there. It has generated a lot of good will and interest for the continuation of the railroad. And I think that is certainly a major good benefit of this program.

I am delighted to see that you are working towards continuing the line on up to West Point, at least, and I wish you good luck in that. It is going to mean an awful lot to those small communities.

Since I used to live in Fremont and used to travel that Highway 275 once a week out of Fremont up to Pilger and up to North Fork, it is striking when you recognize that as great an agriculturally producing and farming area as all that country is, on up from West Point to Beemer and to Wisner and to Pilger, and recognize they do not have rail transportation, it has to be an additional hardship placed on those rural communities that are a lot like those towns that I mentioned in other places in the United States for a relative-

ly small amount of money we can help out. Thank you for being here today.

Mr. Wood, we will continue with you.

STATEMENT OF LARRY WOOD, PRESIDENT, MINNESOTA VALLEY TRANSPORTATION COMPANY, INC.

Mr. WOOD. Good afternoon, Mr. Chairman. My name is Larry Wood. I am President and owner of the Minnesota Valley Railroad. We are a short line railroad operating 94.5 miles of our own trackage, and 42 miles of trackage rights over the Soo Line. I am here also representing the local railroad coalition.

Our railroad is one of few in our area that has three major Class I connections. In Twin Cities we connect with the Soo Line and the CNW, and on the west end at Hanley Falls we connect with the Burlington Northern.

Our railroad was formed from an abandoned CNW box car line in 1984. We have presently achieved a traffic level, the last 12 months of over 5,000 carloads. In 1987, we negotiated a rehab project utilizing these funds that we are talking about today. We had 70 percent 803 funds, 10 percent State, 10 percent shippers, and 10 percent railroad funds.

Without that rehab project, I would not be here talking to you today. Our railroad could not have existed another year. In the last 12 months we would not have been able to ship 5,000 cars.

The real fact of the matter is that, without railroad assistance program, short lines and regional railroads probably will not survive, or at lease the majority would not.

Minnesota has abandoned some 2,000 miles of rail line and we cannot afford to lose any more. Economically, the towns that have lost their rail service, has been a major impact to the state.

Let us turn for a minute and look at what we have received for the investment of these funds. Short lines and regional railroads create employment, local employment in the communities we serve.

Short lines and regional railroads spend more money in the local communities that they serve than the class one or major railroads do. Railroads utilize local financing, local banking.

Short lines and regionals do a better job of marketing, therefore create more investment, shipper investment, into their structures.

On our line in particular, I would like to speak about the fact of what we feel we have accomplished economically for the area. In the last 4 years, we have created about $1.6 million in direct payroll. We have spent about a million dollars with patrons up and down our line, with diesel fuel and other miscellaneous purchases.

We have given the farmers an additional $4.2 million, and our shippers have invested in $6.5 million worth of improvements to their facilities.

None of this would have happened without this program, absolutely none of it, because our railroad was an abandoned line and it would have been removed. If you add the ripple effect to our economy in our area, we feel that we have created $92.75 million of economic impact in the last 4 years of our operation.

To sort of sum up my personal feeling on the local rail service assistance program, it is a program of economic development for rural America. And the one question that I have is, what do we do without it?

Thank you.

[The statement follows:]

STATEMENT OF LARRY C. WOOD, PRESIDENT MINNESOTA VALLEY RAILROAD, INC.

Good afternoon. Mr. Chairman, members of the Subcommittee, my name is Larry C. Wood. I am the President of Minnesota Valley Railroad, Inc. ("MNVA"), a Class III shortline railroad, operating in the state of Minnesota. I appear before you on behalf of myself, my company and the Local Railroad Coalition, to testify in support of reauthorization of government programs for acquisition and rehabilitation of railroad branch lines.

The Local Railroad Coalition is a group of shortline railroads virtually all of which have been formed in the wake of passage of the Staggers Rail act of 1980. They have had experiences similar to that of MNVA on matters of rehabilitation and maintenance of track, and on the difficulties and rewards of building new local businesses.

I have been President and Chairman of the Board of MNVA since February, 1986, and President of a predecessor company, D&L Railroad and Utility, Inc., since its inception in 1981. Prior to 1981 I spent twenty-one years in the contracting business with George F. Cook Construction Co. out of Minneapolis, Minnesota. I was Manager of the Railroad Division from 1977 to 1981.

MNVA Railroad, Inc., is the outcome of a merger between Minnesota Valley Transportation Company, Inc. Southwest, and D&L Railroad and Utility, Inc. We operate a 94.5-mile shortline that extends from Hanley Falls, Minnesota to Norwood, Minnesota, on track which we own. We also have 42 miles of trackage rights on the Soo Line Railroad, which gives us access to Minneapolis, Minnesota. We interchange with three Class I railroads: the Burlington Northern Railroad at Hanley Falls, on the west end of our lines; the Chicago & Northwestern and the Soo line railroads in Minneapolis on the east end of our line.

We presently serve twenty-one principal shippers in sixteen farming communities. From west to east, they are: Hanley Falls, Wood Lake, Echo, Belview, Delhi, North Redwood, Morton, Franklin, Fairfax, Gibbon, Winthrop, Gaylord, Arlington, Green Isle, Hamburg, and Norwood. We currently employ thrity-three fulltime people. We own five EMD GP-9 diesel-electric locomotives. We also have long term leases on 388 jumbo covered hopper cars, each capable of holding 3,550 bushels of grain.

Shipments for 1987 totalled 3,949 carloads, an increase of 879 or 28.6 percent over 1986. Grain to the West Coast totalled 1,350 cars, or 4¾ million bushels, a ninety-two percent increase over 1986. Fertilizer totalled 329 cars, a forty-three percent increase in tons shipped. Kaolin clay to Mason City, Iowa, totalled 902 cars of 100-ton capacity, a ten percent increase in tons shipped. Canned goods from Arlington totalled 215 cars or 929 thousand cases, an increase of 187 percent. Miscellaneous traffic totalled 164 cars, an increase of 156 percent for the same period.

Minnesota Valley Transportation Co., Inc. Southwest ("MINVAL") was formed in the latter part of 1983. The 94.5-mile line was abandoned by the Chicago Northwestern Transportation Co. ("CNW") in 1981 and services ceased at that time. The CNW had deferred maintenance on this line for several years, and consequently the line had dropped well below FRA Class I standards and needed immediate repairs. The cost of repairs was estimated at over five million dollars. In 1987 we negotiated a rehabilitation contract with the Minnesota Department of Transportation for Phase I of the program. The approximate cost of this rehabilitation was $1,493,000.00. Eighty percent of these monies were obtained through the Minnesota Department of Transportation ("MnDot"), ten percent from a group of shippers along the railroad line, and the remaining ten percent from the Railroad. The major portion of the monies that were obtained through the MnDot—approximately $1,015,000.000—are in the form of "803" Local Railroad Service Assistance Act ("803") funds from the United States Federal Railroad Administration ("FRA"). The Railroad is obligated to repay MnDot and the group of shippers the combined amount of approximately $290,000.00, without interest, based upon a specified percentage of the Railroad's shipping revenues; the Railroad began repaying these monies to MnDot and the shippers in October 1987.

The rehabilitation funds were used by the Railroad in 1987 to: (1) replace approximately 42,000 ties along the Railroad; (2) expend approximately $200,000.00 in im-

proving railroad line crossings; (3) add approximately $100,000.00 worth of ballast to the Railroad line; and (4) expend approximately $60,000.00 in improving drainage along the Railroad line. These improvements were originally intended to be the first phase of a three-phase total rehabilitation project.

Without "803"-type funds, railroads such as ours could not survive, due to the difficulty of obtaining financing and the high interest rates. In my opinion, utilizing "803" funds is the only way to save thirty to forty percent of the remaining railroad lines in this country. I believe it is essential to save a major portion of these remaining lines.

The Committee should bear in mind that the investment will have to be made one way or another. Both the Senate Environment and Public Works Committee and the House Public Works and Transportation Committee have been holding hearings on the need for improvements to our basic transportation infrastructure. Local railroads are no exception and, in fact, are probably more in need of rehabilitation than other modes because of the lengthy deferred maintenance by Class I railroads before they sold off their marginal lines to local entrepreneurs such as MNVA.

Continuing railroad funding programs is a good policy decision for other reasons as well. Railroads are energy efficient, and they are environmentally a clean mode of transportation. Moreover, they provide competition to trucks and thereby keep the transportation industry competitive, to the benefit of shippers.

In Minnesota, a major economic impact would be definitely felt if we abandoned any more rail lines. Minnesota had 7,800 miles of rail lines in 1967, which had decreased to 5,100 miles by 1987. This is a 35-percent decrease in 20 years, and must stop. The only way it can is for shortline and regional railroads to take over the lines with a marginal traffic base and for the federal government to continue programs such as the "803" funds.

Let us take a look at the economic impact that the MNVA Railroad has made on the communities it serves, remembering that this was an abandoned line, ready for removal. Below are the four areas in which we have helped our local economy.

(1) Our Railroad has grown to thirty-three employees, with a gross payroll of $1,600,000.00, since 1984. This makes an increase from zero in 1982 when the C&NW line was abandoned.

(2) Our Railroad has spent $1,000,000.00 with our own local suppliers.

(3) Our Railroad has shipped 28,000,000 bushels of grain for our local farmers. Moreover, in using our service the farmers have obtained an average 15 cent per bushel cost savings, or $4.2 billion. This is for two reasons. First, our BN connection opened a new West Coast market. Second, before our service was available, the farmers had to truck their grain to a different location and at a higher rate.

(4) Our shippers have been able to make major improvements to their facilities, and have thus returned $6,455,000.00 to the local economy.

This adds up to $13,255,000.00, the ripple effect (X7) of which is $92,785,000.00. This has significant economic impact on our area, our state, and our country. I am sure that this is only one of many similar stories that have taken place in our country.

Among the reasons for our success are: The MnDot loan, to help purchase the Railroad; and the rehabilitation program, utilizing the "803" funds and a loan program from the MnDot.

Without these, our area, our state, and our country would have lost $92.785 million. In short, a $1.7 million dollar investment generated $92,785 million dollars in four years, and we have begun repayment. With that kind of return on an investment, it seems to me that it is an essential program and should be continued, with maximum funding. I can't stress enough how important the "803" funding is to shortline and regional railroads or how directly related it is to their continued existence.

Thank you for allowing me to present my comments to you.

Senator EXON. Thank you very much, Mr. Wood.

We will turn now to Mr. Kennedy, Railway Labor Executives Association. Mr. Kennedy, welcome to you.

STATEMENT OF JAMES KENNEDY, EXECUTIVE SECRETARY-TREASURER, RAILWAY LABOR EXECUTIVES' ASSOCIATION; ACCOMPANIED BY BILL MAHONEY, COUNSEL

Mr. KENNEDY. Thank you very much, Senator. Since my statement has already been accepted, I will summarize. I would like to

indicate that I am accompanied by Bill Mahoney, the association's attorney, and I thank the chairman for allowing me to have Mr. Mahoney with me here. Otherwise, with the folks on my left here I might feel as comfortable as a Nebraska quarterback in the Oklahoma team picture.

Senator EXON. I might add there that, with the Kennedy's and Mahoney's, you sound a little bit more like Notre Dame to me.

Mr. KENNEDY. Yes, for good reason.

Local rail service funding was created by the Congress as a means of preserving service to shippers and communities, service which otherwise would be lost through the abandonment of the rail line over which the service was provided. The program has worked quite successfully for over 6 years and preserves many lines to the benefit of communities, shippers, and employees.

In 1982, however, the ICC began its innovative program of approving line sales to so-called noncarrier corporations, in reality companies specifically organized to purchase lines from existing carriers and operate them with fewer employees at lower wages, by interpreting and applying section 10901 of the Interstate Commerce Act as if it were designed by Congress for that purpose.

The new non-carrier, after it purchases the line and becomes a carrier, often receives substantial Federal funding through state applications for such funding from the Federal government under the local rail service assistance program. States also purchase lines directly from class one carriers with Federal aid and hire operators to run them. The lines are rehabilitated and equipment purchased with Federal aid.

The operator then hires fewer employees than were formerly employed to service the line, sometimes refusing to hire any of those formerly employed, and pays them between 66 percent and 80 percent of the wages formerly paid for the same work on that line.

All of this may be good for shippers and some of the citizens of the community served, but it is definitely harmful to the employees and their families. One effect of the LRSA is to encourage carrier evasion of their collective-bargaining agreements obligations and the creation of rail industry jobs at substandard industry rates.

We hear arguments that without the short line program created by the ICC, the lines would be abandoned. Yet, well over 20 percent of these short line railroads have gone bankrupt, primarily because they are so highly levered that they cannot service their debt or properly maintain their plant.

Moreover, were the lines to be abandoned the employees affected would be temporarily protected against the immediate economic impact of job loss. The employees receive nothing when the lines are sold, often with Federal aid under the LRSA program.

Simply stated, in our view Federal funds are being used to deprive railroad employees of their wages or their jobs or both, and to increase the profits of entrepreneurs. We respectfully suggest, that when Congress provides local rail funding, it should also provide the railroad employees with some type of protection. It is, after all, these employees who, along with the Federal government, subsidize these short line creations.

The Congress, through the Davis-Bacon Act, requires standard wages be paid when government aid is used to support other indus-

tries. Congress requires protection of mass transportation employees under section 13(c) of the Urban Mass Transportation Act when it provides funding to that industry.

It should also provide railroad employees reasonable protection when Federal funding is used to harm them.

As I noted a moment ago, when this program was conceived in 1976 and for many years thereafter the rail employees needed no protection because it was not used as an aid in the destruction of rail workers' jobs and contract rights and in the lowering of their wages.

But since the Commission's creation of its short line program in 1982, it is used in that manner, and the railroad employees require protection against its effects. Should the LRSA Program continue to be used in aid of the Commission's short line program, in the absence of some reasonable protection for railroad employees, rail labor must consider the possibility of opposing its continued existence.

Thank you very much for the opportunity of presenting to you our views on this very important problem.

Senator EXON. Mr. Kennedy, thank you very much.

My first question will be directed to either Mr. Stecher, Mr. Wood, or Mr. Barron, or all three. Would you or the people that you represent here have been able to go into business were it not for the LRSA program?

Mr. BARRON. Mr. Chairman, there is not any question that without the public assistance for rehabilitation on our line, we would not have been able to bring our railroad out of reorganization.

Our line represents a mix of private financing for acquisition and public assistance for rehabilitation, and the transaction just would not have happened without public assistance.

Senator EXON. Mr. Wood.

Mr. WOOD. The story about our railroad is it has been in operation for 4 years; I have been there 2. The railroad tried to do it without those funds before I got there, and when I took over the debt it was $888,000 cash debt and the railroad was 1 day away from bankruptcy.

And we restructured the financing along with the rehab project with the State, and now it is a thriving business that is beginning to address its debt and is serving its communities and now has 100 percent community support behind it.

Senator EXON. Thank you. That is a good success story, Mr. Wood.

Mr. Stecher.

Mr. STECHER. Yes, we have done everything we have been able to do so far without 1 cent of governmental assistance of any sort at all. It has been tight, it has been close. We will not complete revitalization of the track between Hooper and West Point, as I talked about before, without appropriation. It simply cannot be done.

We are at the point now where that cannot grow without the assistance, and we look forward to getting that because we think those communities deserve rail service, and we think Hooper deserves having rail service continue to it.

Both those are in jeopardy if we do not get funding. But we have done everything we have done so far without 1 cent of governmen-

tal assistance, and very proud of that. Everyone associated with it is. It has been done in the spirit of community enrichment.

But we are at the point now where we need that assistance.

Senator EXON. I think all three of those comments were interesting.

I guess, I take it from your testimony, Mr. Stecher, is that, while you pulled yourselves up by your own bootstraps and took this risky venture, the success to the important rail facilities that you provide is not likely to continue unless you can at least extend the lines to pick up additional rail volume that would very likely accrue to the railroad through the extension of the lines that you think are necessary?

Or, another way of putting it, you are going to have a long row to hoe financially unless you can make the railroad more viable, which the expansion would do. Is that a fair assessment?

Mr. STECHER. That is exactly right, Senator. Without expanding our services to two more communities and encompassing at least three more grain elevators, the possibility of continuing cargo service from simply Fremont to Hooper, Nebraska, is not very bright.

Senator EXON. Mr. Barron, let me ask you this question. From your testimony it appears that the resolution of the labor issues is the primary concern of the Regional Railroads of America. Is continuation of the LRSA even meaningful without such a resolution?

Mr. BARRON. I think Mr. Kennedy's comments make the point, Mr. Chairman, that they are related. The preservation of these lines and the involvement of rail labor with the entrepreneurs and the assistance necessary to physically rehabilitate the lines are all part of the same package.

So I think I would just say amen to your statement.

Senator EXON. The next question, I guess, I will properly address it to you, Mr. Barron. Your written testimony mentions your support for certain legislation proposed in the House aimed at breaking the labor issue deadlock.

Can you elaborate on your reasons for supporting this legislation and why you feel it should also merit the support of rail labor?

Mr. BARRON. I cannot elaborate too much. I do not have the bill in front of me. I can say this much: that the deadlock, and the passage of time without some resolution, creates an untenable situation. These lines are deteriorating by the day. The grain elevators and the shippers that they serve as well as other shippers are going to be without service unless something is done.

So if there are entrepreneurs out there and Class I railroads willing to sell lines, the time to act is as quickly as possible. Without some form of resolution that involves labor protection, this deadlock cannot be broken. So we as RRA are willing to consider compromise legislation that does that, that breaks the deadlock.

And the bill that we have supported is a reasonable compromise.

Senator EXON. Let me turn to you, Mr. Kennedy, in that regard. Can you cite some examples where the transition to a new regional carrier in lieu of line abandonment has been detrimental to railroad employees?

Mr. KENNEDY. Actually, most of these lines are not abandonment questions that we are concerned about.

In fact, as I was listening to some of the earlier testimony about some excellent experiences, our concerns are not about lines that already have been abandoned and entrepreneurs have gotten in and shippers have worked together with them so that there would be some rail service where it has already been abandoned, or when it is very clear to any reasonable person that there is going to be an abandonment.

What we have testified about primarily—and the Senator has heard testimony from us in this forum at other occasions—is the use by many carriers to avoid their collective bargaining agreements by short lining, by potentially—and as you said, and we would agree with your judgment, that this is not the end of the reorganization of the railroad industry, but somewhere in the middle.

This is going to continue, and that is the interest that we are concerned about protecting.

Senator EXON. One last question now.

Mr. Kennedy, would you support—and when I say "you," I mean you or your organization support—or oppose passage of either S. 2174 or S. 2195, neither of which makes any new provisions in regard to rail labor, at least in the present form of those two bills that I mentioned?

Mr. KENNEDY. We would support them. We are suggesting that to be a complete legislative package it should include employee protection.

But what we are trying to emphasize is not really the weakness here, but the weakness in the way the ICC is handling short lines. And we certainly urge this committee's consideration of that problem, as it already has, and point out that regional railroads—I do not know of any of them that would have been abandoned. I do not know of any of them that would have been abandoned. And so that is not the question there.

Senator EXON. Well, I am glad you mentioned the ICC. I do not know—I do not think we have ever had a hearing on rail issues but what the ICC did not come up somewhere along the line, and we would have been remiss, I think, if we had not mentioned the fact that many of our problems today it seems to me with the Staggers Act implementation has been the less than realistic position with regard to the ICC in taking action that I am convinced the Congress intended when it passed the Staggers Act.

So with that, we have put that one to bed and made it a part of the record again. I thank you for bringing it up.

Mr. KENNEDY. Amen.

Senator EXON. Gentlemen, thank you very much for coming here today. Your testimony has been directly on point and has been extremely helpful to us. And I feel and predict that we will act favorably on the legislation that you have been here today supporting.

With that, we thank you. Thank you for coming. Thank you for traveling long distances.

And we are adjourned.

[Whereupon, at 4:00 p.m., the subcommittee was adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF RICHARD E. DODGE, PRESIDENT, SIDNEY & LOWE RAILROAD, INC.

Mr. Chairman, since I could not personally testify in Washington, D.C. on May 25, I felt it best to put my thoughts about the local Rail Service Assistance Program in writing. I respectfully ask that this be submitted as testimony for the LRSA hearing. Following is a brief description of what the State of Nebraska and the federal 803 program have done for the Glover Group (Sidney and Lowe Railroad, Inc.), the city of Sidney and the surrounding area.

Over three-and-a-half years ago, we approached the State of Nebraska (Nebraska Branch Rail Revitalization Council) with the idea of expanding/upgrading our short-line railroad. We were experiencing some major maintenance problems, derailment problems and excessive operational costs. The council selected our project as the number one priority in both 1986 and 1987. Applications to the Federal Railroad Administration were made both years. The state received $528,873 in 1986 and $385,000 in 1987. These funds were then loaned to the Sidney and Lowe Railroad to be repaid over a seven-year period. There was no interest for the first three years and 2 percent for the next four. We could never have accomplished what we have without the loan granted by the Branch Council.

The loan freed up our operating capital and allowed us to expand in areas offering more direct returns on investment, than strictly maintenance. Because of the loan, we went into an aggressive switch and ballast replacement program. It not only made the railroad look better, but it practically eliminated all of our derailments and significantly reduced our staggering maintenance costs. In addition, the new connection track to the Union Pacific cut our switch time by two-thirds. Before the interchange was built, all cars coming from the UP had to go through another terminal operation. Because we were at their mercy, most of our switching had to be done either after work or late at night. This was very costly and inefficient.

Because our railroad is now a first-class facility and operation, we have been able to attract new businesses. Scoular Grain is currently building a million-and-a-half-dollar operation on our line. In addition, I believe very strongly that we were able to keep FMC Corporation because of the upgrading of our railroad. Also, Utility Fuels of Houston, Texas (one of the major customers who had stopped using our repair facilities) returned their business to us. The High Plains Wheat Processing group and several others are now looking at our right-of-way for locating new agricultural loading and processing facilities.

Our coal car maintenance program has improved immensely because we now have additional connections to the Burlington Northern. By building the new passing track and switches we can now position a total unit train for pick up, while the BN drops another train for maintenance. BN can now drop one unit train, hook onto another and pull it out in less than an hour. This process used to take several hours. There are very few facilities in the United States with this type of service.

Not only did we correct some major safety problems, but it created jobs for our community. One of our subcontractors hired twenty-two employees who were out of work. He also permanently moved his track repair business and three families from Texas to the Sidney area. Because of the expansion program and the increase in our business, we went from twenty-seven employees in 1987 to forty-four today. A more widespread benefit will be felt by area wheat farmers. Scoular Grain's facility on our line is strategically located, with easy access to both the BN and UP. Consequently, in all likelihood, Scoular will be able to offer area farmers a premium for their grain.

If I were asked to rate the total LRSA program on a scale of one to ten, without hesitation, I would rate it a ten. Not only would I rate our relationship with the state a ten, but what the program has done for us, the city of Sidney and the surrounding area. We just couldn't have done it on our own. Most importantly, we don't think we've seen the end of the benefits yet. It is not only that we look better, but we operate better and more efficiently. That's exactly what it takes to survive and operate in the competitive market of the 80's.

Thank you for allowing me the opportunity to illustrate what the LRSA program has done for us. I hope that the federal government sees fit to reinstate funding for the 803 program.

STATEMENT OF LYNN A. ANDERSON

I am Lynn A. Anderson. I am Vice President/Traffic for the Dakota, Minnesota & Eastern Railroad. DM&E is one of the newest and largest of the new regional railroads. We began operation in September, 1986 over track purchased from the Chicago & North Western Transportation Company. The $26 million transaction included 965 route miles of track from Rapid City, South Dakota to Winona, Minnesota and includes track in the states of Iowa and North Dakota. We employ approximately 200 individuals, the majority of them former employees of the Chicago & North Western. We handled over 43,000 carloads in our first full year of operation, and anticipate a 5% increase in carloads for calendar year 1988. The majority of that traffic is agricultural products, wood products and cement. We serve 100 communities and well over 200 active local rail customers, the vast majority of which we are the exclusive provider of rail transportation.

DM&E is a prime example of the promise and the problems inherent in the regional railroad industry.

The promise is the potential to avoid the abandonment of rail line. DM&E was a prime candidate for abandonment. Indeed, C&NW previously attempted to abandon large portions of what is today the DM&E's main line. With relatively low traffic volume this line could not support the high maintenance and labor costs required on a Class I railroad. However, operated as a separate entity, with productive labor agreements and a local marketing orientation, the railroad can be marginally profitable. Our ability to make it means jobs for railroad workers, service to shippers and communities and continued carloads on the national rail system, all of which would have been sacrificed in an abandonment.

The problem with regional railroads is the object of today's hearing. That is, that the physical plants of most new regional railroads are in very poor shape.

Railroad lines require continual capital investment. Ties, rail and crushed rock ballast must be replaced at regular intervals to maintain speed and avoid derailments. When a Class I's low density line no longer justifies this investment, it is allowed to deteriorate. As deterioration continues, shippers leave the line, and even less is spent on maintenance. With little or no traffic, the line can be filed for abandonment.

Today's regional railroads were yesterday's abandonment candidates. They begin operations with all the optimism brought by new management promising innovative service directed at local shippers. But after the ribbon cutting ceremony, the central fact remains—there is significant deferred maintenance that must be eliminated and that task requires a lot of money. If that rehabilitation is not undertaken quickly, the only difference between the old line and the new will be the name under which the abandonment is filed.

I can use my own railroad to give you an idea of the magnitude of the problem. The DM&E was purchased for $28.6 million dollars, with approximately $25 million of that amount financed. That level of debt stretches the available collateral for security to its absolute limit. Yet, this railroad requires in excess of $20 million in main line rehabilitation expenses to cure the ills of years of deferred maintenance. Every day that rehabilitation is left unfinished, our expenses increase and our traffic becomes more vulnerable to truck. Left undone, the DM&E would be bankrupt in a matter of years.

The capital the DM&E has been able to generate internally, or borrow has, of necessity, been used for maintenance and upgrading of our main line, heavier density trackage. Thus, our branch lines continue their deterioration due to deferred maintenance. This, of course, can only lead to loss of service and eventual abandonment of the line segments.

The one exception to this branch line scenario is a DM&E 29 mile branch line extending from Redfield to Mansfield, South Dakota in the north central area of the state. When the DM&E began operations, this line segment was restricted to track speeds of less than 10 miles per hour and also restricted to a gross weight of 210,000 lbs. per car versus a normal of 263,000 lbs. per car. Several derailments occurred on this line, even at very slow speeds. While we desired to continue rail service on this line, as it served three very dedicated rail users, practicality and economics dictated that service could not be continued for very long.

Working with the South Dakota Department of Transportation, we were able to secure approximately $600,000 in local rail assistance funds to help in rehabilitating this line. The DM&E also contributed approximately $600,000 to this project, which was completed last fall. Now, the shippers on this line are able to fully load grain cars to their capacity and we are able to safely operate our trains at 25 miles per hour on this trackage and rail service for these customers is secure. The upgrading of this line has also served to help the DM&E during its critical startup period by allowing us to participate in additional traffic and revenue that we would not have been able to handle without the upgrading.

Happily, the DM&E has been the beneficiary of the LRSA program you are discussing here today, on our Redfield to Mansfield branch line, of a FRA 505 loan which is being secured through the efforts of Senator Pressler and of a low interest loan from the State of Minnesota, a portion of which includes that state's LRSA funds. Those funds, along with $4.5 million in internally generated cash will allow us to undertake this $20 million program. As a result, we will survive and prosper as a regional railroad, as we and our customers will be allowed to effectively compete in a very competitive marketplace.

Not all regional railroads will be so lucky. For starters, not many have a U.S. Senator as persistent and tenacious as Larry Pressler. In addition, this is the last year of both the 505 loan program, and unless the bill we are considering today passes, the last year of the LRSA program. Finally, while there are a number of so-called "infrastructure" bills pending in the Public Works Committees of the House and Senate, not a single one provides any funding for America's railroads.

It can be fairly asked, what public policy justification is there for providing railroads with a federal subsidy. There are two.

First, the federal government provides massive subsidies to our competitors, trucks and barges. It is estimated for instance, that to maintain current overall highway conditions on non-local roads through the year 2000 will cost $315 billion, or $19.7 billion a year. This estimated cost to bring all deficient bridges up to current standards is $51.4 billion. Truck user fees will not even begin to cover this cost. By subsidizing the trucker's "track" the federal government puts railroads at a competitive disadvantage from the very beginning. A modest LRSA program is certainly a step toward equity.

Second, a federal policy which saves railroad lines from abandonment makes economic sense. It preserves jobs. It preserves competitive transportation to thousands of shippers, many of whom are dependent on rail for the movement of their goods to market. It keeps traffic moving on the national rail system, thus strengthening that system.

Because it believed it was good public policy, the federal government has already made a huge investment in restructuring the American railroad system. It deregulated the industry so it could compete. It created and largely financed Conrail in the northeast. It invested heavily in rehabilitation in the midwest. Now we are at, if you will, "the tail end" of that restructuring. The Class I railroads cannot afford to keep the marginal and money losing lines that carry the lightest densities on the peripheries of their system. That restructuring will be accomplished in one of two ways—the formation of marginally profitable regional railroads, or the abandonment of these "tails".

As has been demonstrated by the formation of nearly 200 regional railroads since the passage of the Staggers Act of 1980, there is private financing for the initial purchase of these lines. But it is high cost, short term financing that uses virtually all of the collateral available for securing debt. If we are to successfully complete the restructuring of America's railroad system, then we need a bridge between the rehabilitation needs and the savings ultimately generated by that rehabilitation. The LRSA program can be a critically important span in that bridge and I strongly urge this committee to continue it into the future.

Statement of Gregory W. Baise, Secretary, Illinois Department of Transportation

Mr. Chairman and members of the Surface Transportation Subcommittee, on behalf of the Illinois Department of Transportation, I would like to thank you for holding hearings on the reauthorization of the Local Rail Service Assistance Program (LRSA). I appreciate the opportunity to present our views for the record.

As you know, the authorization for the LRSA program expires at the end of this fiscal year. This program provides capital assistance necessary to retain essential rail feight service over light density lines or to secure alternative facilities. It is an

important element in Illinois' rail freight program and we strongly support its reauthorization.

The LRSA program has provided capital assistance to railroads, shippers and communities faced with the loss of industries and jobs due to rail line abandonments. This assistance has also allowed capital improvements to enable expansion of existing facilites and attract new industries to locate on the line. It has played a significant role in retaining essential rail freight service over light density lines in our state and continues to be needed.

The LRSA program is the only federal funding program which can address the critical needs of our rail freight facilities and the impact they have on both the state and local economies. Currently, Illinois railroads have designated some 311 miles of rail lines as candidates for service abandonment. Continuation of this important program will help to provide our state with the ability to rehabilitate many of the rail lines that might otherwise lose service or be removed. When coupled with the commitments of shippers, railroads and local governmental agencies, the LRSA program will enable the state to preserve the rail infrastructure necessary to assure the continuation of jobs and industry in Illinois.

Because the federal funding for LRSA has undergone significant reductions in recent years, Illinois has developed and implemented two programs designed to supplement the federal LRSA program. In fact, we were the first state to take advantage of the revised Federal Railroad Administration (FRA) rules allowing us to establish a revolving loan account, replacing LRSA grants with low-interest loans wherever feasible, then retaining and reusing the repaid loan funds for new projects. Next, we began a state-only program paralleling the LRSA effort, under Governor Thompson's Build Illinois program. These two initiatives have allowed us to maintain an annual program of about $5 million (funding from all sources) for rail freight line rehabilitation or construction. All together, we have loaned some $11,215,000, and granted another $5,516,000, since 1984, implementing 36 projects around the state, benefiting 120 industries and saving or creating 10,000 jobs in Illinois. More importantly, these projects have leveraged well over $100 million in private investment which may not have been made at all without the federal and state "seed money."

While we are proud of these accomplishments, we face an existing backlog of some 35 projects totalling more than $22 million. Because of a rapidly changing railroad industry, many of the problems that the LRSA program was designed to address still exist. The mergers of larger railroads in recent years have resulted in an increasing number of marginally profitable, low-density branchlines being proposed for abandonment. Without the continuation of federal assistance, our ability to continue the progress already made will be curtailed, ultimately causing a far greater imbalance between eligible projects and available funds.

Therefore, Illinois urges Congress to reauthorize the LRSA program. Further, we support the higher funding levels included in the multi-year reauthorization bills introduced by Senators Harkin and Burdick. Higher funding authorizations recognize the considerable hardship caused to local communities, industries, and shippers as a result of rail line abandonments, and demonstrate a renewed federal commitment to assist states in preserving essential segments of rail transportation service.

In the even that other substantive programmatic changes are comtemplated by the Subcommittee, Illinois would also recommend some relaxation of the current restriction on light density line tonnage limits used to determine LRSA eligibility. The current limit is three million tons per year and we suggest increasing this to say 10 million tons per year. We believe this would significantly broaden the state's ability to target limited dollars toward projects with the greatest potential for rehabilitating its rail infrastructure.

Mr. Chairman and members of the Surface Transportation Subcommittee, that concludes my formal statement for the record. Thank you for making this opportunity available and for your continued support of the nation's rail transportation needs and of Illinois' particular concerns.

STATEMENT OF VIVIAN E. WATTS, SECRETARY, VIRGINIA STATE TRANSPORTATION AND PUBLIC SAFETY, STATE OF VIRGINIA

The Commonwealth of Virginia has been a recipient of federal Local Rail Service Assistance funds since the inception of the program in 1976. We have used the funds for two projects; both have been successes. Federal funding during this period of time has enabled Virginia to maintain essential rail service on its Eastern Shore. Although this rail line is being rehabilitated, additional funding is required to ac-

complish the work for a complete Class II operation. The other example of Virginia's use of these funds involves the development of a substitute service project to ensure continued delivery of coal to one of the Commonwealth's universities. Potential rail abandonments, owing to recent rail mergers, relaxed abandonment regulations, and a deregulated trucking industry, will also require assistance in order to maintain vital local rail service.

Between 1970 and 1987, abandonment of 514.6 miles of rail has occurred in Virginia. Of this total mileage, 407.6 miles have been light density rail service, which is equivalent to 38 percent of the original 1970 light density mileage. Abandonment activity reached its highest level to date during the period between July 1, 1986 and June 30, 1987. Eight abandonments were granted, involving 100 miles of track. As evidence of the accelerated rate at which abandonments are taking place, this 100 miles abandoned in one year represents approximately 20 percent of the total mileage abandoned in a 17-year period.

The Commonwealth has performed a study of twelve lines believed to be potential abandonment candidates and has estimated that approximately $13–14 million in rehabilitation work could be required to ensure continued rail service. These lines, if proposed for abandonment, would have serious effects on local economies. Also, two potential shortline operators have recently indicated that they would need financial assistance with rehabilitation work on lines they are considering operating.

The Commonwealth has found that the Local Rail Service Assistance Program is important in encouraging economic development and exhibiting federal-state cooperation. It is important for the federal government to continue its role as part of its responsibility to interstate commerce. Consequently, it is recommended that the Local Rail Service Assistance Program be continued and that funding be provided to meet the expressed needs of the states.

Thank you for considering Virginia's comments.

WOMEN INVOLVED IN FARM ECONOMICS,
Plentywood, MT, May 23, 1988.

Senator JAMES J. EXON,
Chairman, Senate Surface Transportation Subcommittee, Hart Senate Office Building, Washington, DC.

DEAR SENATOR EXON: Since our organization was unable to testify at the hearings discussing the continuance of the Local Rail Assistance Program, we would appreciate having this letter be made a part of the hearing record.

As National Transportation Chairman for WIFE, I have been invited to attend the Transportation 2020 meetings; the USDA's Agricultural Transportation Conference in Houston, and various other meetings concerned with the problems of transportation in this country.

All of these meetings have been attended by various authorities who are seriously concerned about the conditions of the rural roads and bridges. One of the major conditions affecting these has been the changing traffic patterns that are the result of the railroads' efforts to maximize their profits by becoming just 'main line' entities.

After listening to many experts voice concern over the rapidly deteriorating condition of the roads and bridges and becoming aware of the massive scope of the damage, it was good to hear that Senators Burdick and Harkin had introduced legislation to mandate the continuance of the Local Rail Assistance Program.

As the railroads sell off their branch lines; as shortline operations are struggling to become viable businesses and serve the rural communities, then it becomes apparent that this program must be continued.

It appears that, far from costing the taxpayers additional funds keeping the bulk commodities moving by rail rather than having them moving over roads that were never designed for todays' heavy trucks, it would actually save them money in the long run. Bad roads make trucks costs higher and a safety factor for the general traffic. All transportation costs are passed on down to the original shipper—in this case, agriculture, where is no possibility of being able to pass those costs on for most of us!

The USDA Office of Transportation study of road conditions in the Midwestern States found that many of the farm to market roads were first built 60–100 years ago, and they have been improved very little since the 1940's or 1950's when 15 ton truck capacities were considered adequate. Many trucks now weigh 40 tons or more, thus making the older roads and bridges of the rural systems serving the farm communities obsolete. And yet, the Federal Government is seriously considering cutting out the Local Rail Assistance Program for the States? In addition to cutting back on the funding for the road systems?

And because of the failing farm economy—and if you live out in the agricultural areas, it is not apparent that the farm economy is improving!—the agricultural states have less funds to work with, making it very apparent that this country is fast relegating agricultural producers and communities, and the states in which they live, to the status of second class citizens!

WIFE urges this committee to support the concept of continued funding for the Local Rail Assistance Program—we feel that Senator Burdick is wise to ask that the funding be continued to 1993. Unless the agricultural economy improves considerably, there will still be insufficient funding to upgrade the roads in agricultural states, and we ask for the whole-hearted support of this committee.

Respectfully,

MARY W. NIELSEN,
Transportation Chairman.

DEPARTMENT OF COMMERCE
TRANSPORTATION DIVISION

TED SCHWINDEN, GOVERNOR — 1424 9TH AVENUE

STATE OF MONTANA

(406) 444-7423 — HELENA, MONTANA 59620-0401

May 25, 1988

Senator James Exxon
428 Hart
Senate Office Building
Washington, DC 20510

Dear Senator Exxon:

I am writing in support of recently introduced legislation that would extend the Local Rail Service Assistance Program (LRSA) that is administered by the Federal Railroad Administration. I request this letter be made part of the hearing record for the reauthorization of the LRSA program. It is my understanding that the Surface Transportation Subcommittee will hold hearings on this legislation on May 25, 1988.

In rural areas like Montana rail service is vital to the economic survival of resource-based industries. The Local Rail Service Assistance Program has played an important role in keeping the key branchlines in full service. To date Montana has completed seven LRSA projects. We currently have three projects pending approval by the Federal Railroad Administration (FRA). An additional 15 projects, costing an estimated $44,453,078 have been identified and in need of assistance.

In addition, the sudden surge of growth in the shortline and regional rail industry has increased the need for the LRSA program. Many times shortlines are undercapitalized, the trackage acquired is in need of significant amounts of repairs, and without assistance such as that provided by the LRSA program, many of these lines would be abandoned and shippers, producers and communities will be severely harmed.

Montana shippers must utilize this nation's rail network in order to keep our products market competitive. It is in the best national interest that producers and shippers have access to a broad, diverse transportation network. The Local Rail Service Assistance legislation proposed for hearing on May 25 will provide a very positive step in support of the essential rail elements in that network.

Sincerely,

William J. Fogarty, Administrator
Transportation Division

Richard F. Celeste/Governor

OHIO DEPARTMENT OF TRANSPORTATION

25 South Front Street
P.O. Box 899
Columbus, Ohio 43216-0899

Honorable J. James Exon
Chairman
Subcommittee on Surface Transportation
United States Senate
428 Hart Building
Washington, D.C. 20510

Dear Senator Exon:

The Ohio Department of Transportation (ODOT) supports S.1274 and S.2195, bills which would continue authorization for Local Rail Service Assistance (LRSA) programs. I request that you enter this letter and attachment into the record of the May 25 Surface Transportation Subcommittee hearings on these bills.

LRSA has been a vital part of Ohio's transportation infrastructure program. Combining state and federal funds, ODOT has been able to minimize the adverse effects of rail abandonments in a cost effective manner. In the last three years, ODOT has developed (or is in the process of developing) 27 projects which are helping to preserve 11,345 jobs and to create an additional 3,146 jobs at a cost to state and federal taxpayers of only $793 per job.

Last year's applications for LRSA funding indicate the national need for continuing LRSA programs. In 1987, despite the small amount of LRSA money available and limited chances of receiving adequate funds, 25 states applied for projects costing over $38 million dollars. The Federal Railroad Administration was only able to provide $6.7 million towards these projects.

LRSA is not a giveaway program. The current program requires that at least 30% of project funds come from state and local sources. The new bills would raise this non-federal participation to 50% in many cases. ODOT agrees that federal participation should have limits. ODOT does not want to be a federal dependent but a federal partner.

The attached Exhibit "A" more fully explains today's branchline rail environment. It describes some of the dynamics behind the recent growth of small railroads across the country and why federal and state governments need to continue helping them.

I hope the material presented herein will help persuade you to preserve and expand the existing federal-state rail branchline partnership by continuing the LRSA programs.

Thank you for considering Ohio's urgent rail needs.

Sincerely,

Bernard B. Hurst

Bernard B. Hurst, P.E.
Director

DELMARVA ADVISORY COUNCIL
P.O. BOX 4277
SALISBURY, MARYLAND 21801 PHONE 301/742-9271

88 MAY 26 PM 4:10

May 24, 1988

Honorable Ernest Hollings
United States Senator
Senate Office Building
Washington, D.C. 20510

Dear Senator Hollings:

The Delmarva Advisory Council is a tri-state agency whose mission is to improve the economy of the twelve counties on the Delmarva Peninsula. We know that what happens on one part of the Peninsula usually affects for better or worse another area in the region.

Right now we are most eager that Congress reauthorize the Local Rail Service Assistance (LRSA) Program.

The LRSA has allowed the Eastern Shore Railroad to survive. The Eastern Shore Railroad is the only railroad on the Eastern Shore of Virginia, and is a short line railroad without which the Conrail tracks would end near Pocomoke, Maryland thereby handicapping not only local shippers, but also would deny the entire East Coast an important rail link to the huge markets of the Northeast.

The departments of transportation of Delaware, Maryland, and Virginia have all cooperated to provide LRSA funds for the upgrading of the track of the Eastern Shore Railroad. This is a beautiful example of regionalism at work, and it shows that all three states recognize the importance of the railroad.

Without LRSA this vital link could not continue. We urge you to support S. 2174 or S. 2195 or other legislation reauthorizing LRSA. I would also request that you forward a copy of this letter to the appropriate subcommittee; so that it can be put in the hearing record.

Grateful for your assistance, I am

Yours very truly,

Arthur K. Fisher
Executive Director

The Commonwealth of Massachusetts
Executive Office of Transportation & Construction
Office of the Secretary
10 Park Plaza, Room 3510
Boston, MA 02116-3969
Telephone 973-7000
TTD (617) 973-7306

Michael S. Dukakis
Governor
Frederick P. Salvucci
Secretary
and
M.B.T.A. Chairman

May 24, 1988

Senator J. James Exon
Chairman
Subcommittee on Surface Transportation
330 Hart Senate Office Building
Washington, DC 20510

Dear Senator Exon:

I write to request your committee's support of the Local Rail Service Assistance (LRSA) Program. My expectation is that Massachusetts will not be alone in bringing the importance of this rail program to your attention. In a time when the national rail system is struggling to survive, Congressional support of programs such as this is crucial.

LRSA, established by the Regional Rail Reorganization Act of 1973, was originally designed to provide financial support to the states for the continuation of rail freight service on light density lines excluded from the Conrail system. This was a clear expression of Congressional intent to prevent the abandonment of short lines or regional railroads. Today, the program provides funds which are essential for long range planning and which provide capital assistance for rehabilitation and acquisitions before abandonment. In the post deregulation era, these short lines are in jeopardy, since the large railroad companies find no profit or usefulness in maintaining them. There is a continuing need for funding for the acquisition, rehabilitation and maintenance of portions of the rail system which are not generally supported by the private sector but are clearly in the public interest. LRSA provides the seed money necessary to protect these vulnerable lines, and the program requires financial and political support from both the federal and state governments.

LRSA has been a vital element in the maintenance of small lines providing essential service to communities and businesses which depend on rail for their continued economic health. The

operators of these lines face significant challenges as they struggle to maintain their railroads, not the least of which is the generation of sufficient capital to maintain the business and perform massive rehabilitation and preventative maintenance.

Massachusetts supports rail in a direct and significant way. The Commonwealth has prepared rail plans since 1975, and we are now in our eighth update. With each update, we plan a rail program that can emphasize our most compelling needs. It is a challenging task. Due in large part to federal deregulation, the rail industry is changing rapidly. Massachusetts, like most other states, needs its federal planning grant simply to stay ahead of urgent rail needs and not lose opportunities for rail preservation.

LRSA's rail planning grant is, therefore, an important catalyst for significant strides in the battle to restore and preserve the nation's rail system. While states like Massachusetts make major financial contributions to rail, the majority of our state funds can only be spent on state-owned rights-of-way. Federal support through LRSA allows the state to leverage scarce funds for the privately-owned lines.

LRSA is a program where a relatively small federal expenditure can reap large gains. The funds provided by the program, joined with state and private dollars, go to planning for rail rehabilitation, thus forestalling abandonment and the destruction of this vital transportation mode. Moreover, rehabilitation and abandonment decisions are typically made under tight time constraints. The flexibility and availability of LRSA dollars allows us to respond in a timely way to urgent needs, and therefore helps us be more creative and effective as we attempt to restore and rehabilitate the rail system within the context of a coordinated state plan.

As we look toward a future of airports operating beyond capacity and congested highways in dire need of maintenance and repair, we must look to restore rail as an essential component in our national transportation system. There must be a renewed and long term federal commitment to restore and maintain rail as a key element of a multi-modal national transportation system. The LRSA program is one important way to ensure that the system does not fall irretrievably out of existence. I urge your committee's strong support for the continuation of this program.

Very truly yours,

Frederick P. Salvucci
Secretary

STATEMENT OF THE NORTH DAKOTA STATE INTERMODAL TRANSPORTATION TEAM (SITT)

The State Intermodal Transportation Team (SITT) consists of the department heads of the various agencies in the state that are most concerned about transportation matters, as well as the chairman of the Transportation Committees of the North Dakota Senate and House of Representatives. SITT's main purpose is to serve as a coordinating body for the discussion and development of state transportation policy. One of its primary discussion points has been related to North Dakota railroad policy.

Recommendations of the State Intermodal Transportation Team to Senator Burdick.—At its January 1988 meeting, SITT passed a resolution encouraging reauthorization of the Local Rail Service Assistance Program. We are most appreciative of your efforts to introduce S. 2174 which provides for a 5-year reauthorization of the program with funding up to $30 million per year. In follow-up, SITT passed a motion at its recent May meeting to contact you with strong support for the bill. We hope our letter will be made a part of the hearing record in S. 2174.

Local Rail Service Assistance Program Background Information.—This program has been particularly important to North Dakota because of its focus on light density or branchline railroad track. Our state has over 2850 miles of light density trackage which provides rail service to most smaller North Dakota communities and which serves as the backbone for our agricultural economy.

History of North Dakota Branchlines.—Not too long ago, some branchlines were considered by some railroads and other as an albatross to a modern transportation system. They were considered obsolete and inadequate for modern transportation services. We were told that the best thing to do was to redesign our grain marketing system by building large grain subterminals at mainline stations and to truck grain from the hinterlands to these central gathering points. The promise was a more efficient grain handling and transportation system resulting in reduced freight rates, better car utilization and better grain marketing. The disadvantage was the further degradation of our small communities and more expenses to maintain a road system to truck grain to the subterminals.

Today, it does appear that there have been some benefits from modernization and specialization in the grain industry. It has been found, however, that grain subterminals work just as well on the branchlines when properly upgraded, as they do on the mainlines. The traffic growth on some of the rehabilitated lines is astounding.

More recently, we have seen another phenomena which could prove even more astounding. As might be surmised, one of the huge hidden costs of the subterminal development has been the need to upgrade area roads leading to the facility. In some cases, the required road investment is even greater than the facility itself; for example, the Lefor Road which provides access from Regent, North Dakota to the Southwest Grain subterminal facility near Gladstone. Now, however, as a result of more enlightened railroad practices, grain is being gathered at various locations on the branchlines by rail. It is then either unloaded at a subterminal facility and reloaded into unit trains or is assembled into unit train lots for marketing and long-haul transportation purposes. This type of activity results in tremendous savings to our rural roads and preserves the advantages of modern grain marketing.

We also are hopeful that other commodities can be returned to the rails with similar savings in road maintenance and construction costs. A rail connection has recently been reinstated to a sand and gravel business at Sheyenne, North Dakota. This not only saves on roads, it helps promote economic development at Sheyenne. We would also like to see much of the cement or other commodities coming into the state returned to the rails.

Previous Local Rail Service Assistance Projects.—As a result of previous Local Rail Service Assistance projects, over 200 miles of North Dakota branchlines have been upgraded. We are hopeful that another 80 miles can be upgraded in 1988 to bring the total to nearly 300 miles rehabilitated. the railroads have more than matched the public funds with private investments. Thus, the public funds are leveraged to serve as the basis for significantly larger private fund investments. In addition, all Local Rail Service Assistance funds in North Dakota, since 1982, have been provided on a loan basis. As a result, the state was able to commit repaid loan funds amounting to $1.6 million in 1986 and another $1.5 million in 1988 to rail improvement projects.

Repaid Loans Fund Are Inadequate.—The State's recycled loan program is proving to be a reliable, albeit limited, source of funds for critical rail projects. Unfortunately, the program is still too small to meet needs in an effective manner. It also does not provide any kind of cushion for possible catastrophic occurrences such as major flood damage or large bridge replacements.

Regional Railroads Create New Solutions and Problems.—the "regional" railroad phenomena also has begun in North Dakota. The Dakota Minnesota and Eastern Railroad owns 14 miles of track in North Dakota that connect Aberdeen, South Dakota and Oakes, North Dakota. More recently, the Red River Valley and Western Railroad assumed control over 750 miles of North Dakota trackage. It serves the rick southeast North Dakota agricultural production area, as well as central North Dakota. While the innovation and flexibility of these smaller railroad units could help many rural branchlines and communities served, the youth of the companies could result in short-term problems which may need state or other railroad intervention in order to avoid serious rail service disruptions.

Soo Line Finances Unsure.—North Dakota also is extremely concerned about the financial health and potential reorganization of the Soo Line. This company operates key branchlines throughout the state. It serves as the primary rail competition in the state. The state would suffer enormously if another wholesale abandonment of lines were to occur, such as what happened when the Milwaukee Railroad declared bankruptcy.

Current Rehabilitation Needs.—As North Dakota transportation officials, we are often confronted with wrenching choices regarding the use of available funds. Sometimes, programs and funding have to be denied, because we know that there just isn't sufficient potential for public benefits to justify the costs. Far worse, too, is the inability to respond to worthy needs because funds are not available. North Dakota has experienced the abandonment of over 700 miles of track since 1980, resulting in a loss of service to 52 communities and 3 entire counties. As you know, the Public Service Commission, with the help of other parties such as the Upper Great Plains Transportation Institute, the North Dakota Wheat Commission and others, has fought hard to save some of these lines, where we had an opportunity to make a strong case through filing protests to the abandonments with the Interstate Commerce Commission. Although successful in some cases, we are convinced we need a more positive form of intervention if we are to shape North Dakota's transportation system so as to meet current and future shipping needs.

North Dakota has two ongoing projects for which additional funding is needed in 1989. The state has already provided funding for the rehabilitation of nearly 130 miles of the 250-mile long "wheat line," which is important Soo Line trackage in northern North Dakota. This work, ongoing since 1984, has utilized grant funds from several years. Work on this line has been directed to the worst parts of the line. Due to the high quality work performed, those parts which were rehabilitated remain in excellent condition. The next phase involves closing the gaps so as to preserve the benefit of the work already completed. Ideally, the state should fund an additional 16 miles of track rehabilitation in 1989. Assuming that costs would be about the same as previous "wheat line" projects, the 16 miles of work would cost approximately $1.1 million. At seventy percent funding, the state share would be limited to $770,000. The thirty percent match requirement would come from local sources, either the railroad or local shippers.

The state has also entered into a phased project with the Red River Valley and Western Railroad (RRV&W) to rehabilitate trackage between Mooreton and Wahpeton, North Dakota. This line is crucial to RRV&W operations and to reliable rail service throughout southeast and central North Dakota. In order to assure adequate rail service, approximately 20 miles of light rail needs replacement. Assuming that costs would reflect those of previous estimates, a 10-mile relay project would cost approximately $1.1 million. The state's 70 percent share would be $770,000.

CONCLUSION

As you can see, we continue to have extensive branchline rehabilitation needs in North Dakota, both long and short term. Funds from the repayment program help but are not sufficient to meet the immediate needs for critical branchline rehabilitation projects.

NORTH DAKOTA GRAIN DEALERS ASSOCIATION,
Fargo, ND, May 19, 1988.

Hon. QUENTIN BURDICK,
Senator from North Dakota, Hart Senate Office Building,
Washington, DC.

DEAR SENATOR BURDICK: We would like to strongly and enthusiastically offer our support of your SB 2174, the Local Rail Service Assistance Reauthorizing Act.

This program has already proven its worth in North Dakota with about 200 miles of track rehabilitated and another 80 miles planned. In North Dakota we get even more use from these funds because the Highway Department administers them as loans rather than grants. Thus railroads must repay the funds and they can be "recycled" for other worthwhile projects.

Rural America needs a program such as this Act in order to help maintain vital rail service to local communities.

Sincerely,

STEVEN D. STREGE,
Executive Vice President.

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